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UNITED NATIONS

**ECONOMIC SURVEY
of ASIA and the FAR EAST
1948**

PREPARED BY THE SECRETARIAT
OF THE ECONOMIC COMMISSION
FOR ASIA AND THE FAR EAST



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PREFACE

The Economic Survey of Asia and the Far East, 1948 has broadly the same scope as the 1947 Survey. The terms of reference of the Economic Commission for Asia and the Far East have been widened to include the Kingdom of Nepal, which was admitted as an associate member in 1948. It has not been found possible, however, to cover Nepal effectively in this Survey, as efforts to secure adequate material and data were unsuccessful. For reasons explained in the last Survey, Japan and Korea are included within the scope of the present Survey, and the term "AFE region" is used to indicate their inclusion. The term "ECAFE region" is used in reference to the more restricted group of Territories covered by the Commission's terms of reference, namely, British North Borneo, Brunei and Sarawak, Burma, Ceylon, China, Hong Kong, India, Indochinese Federation, Indonesia, Federation of Malaya and Singapore, Nepal, Pakistan, Philippine Republic and Siam. These Territories, with the addition of Japan and Korea,* constitute the wider "AFE region".

The economic picture of China presented in this Survey remains somewhat incomplete and even confused, owing to the uncertainty whether the returns of information under various heads covered the entire Territory. The treatment of Korea has not been as full as in last year's Survey, since the flow of material from that country ceased upon the transfer of administration to civil authority.

Thanks to the interest in the publication of the Survey and the resolution adopted by the Commission at its fourth session in November 1948 appealing to the Governments of the region to supply relevant information, the factual data presented here are more detailed and complete than for 1947, but certain statistical deficiencies still remain which cannot be remedied until the organization of basic statistical data by the countries of the region is taken in hand. This is particularly urgent in the case of essential demographic data, including occupational distribution, statistics of industrial production (especially of small industries and cottage industries), transport, balance of payments, more particu-

* During 1949, Korea has been added to the Territories covered by the Commission's terms of reference, and will, therefore, in future Surveys be included in the "ECAFE region."

larly non-trade items, and cost of living. The Commission's efforts to improve the quality and quantity of statistical data in various fields by organizing special studies should bear fruit in due course, and each year's *Survey* should benefit by the results of such studies.

Certain differences in presentation between last year's *Survey* and the present *Survey* may be briefly indicated. A chapter on "Characteristics of Asian Economy" is provided as a background for the understanding of current developments, while another chapter deals with certain salient changes in the region's economy which have taken place since the war and which appear to be of more than a temporary character. In view of the importance of the subjects, separate chapters have been devoted respectively to Inflation and Price Movements, Currency, Banking, and Public Finance. There is no chapter on National Income as no new data were available throwing light on changes in 1948; also the publication of *National Income Statistics, 1938-47*, by the Statistical Office of the United Nations gives all available information in respect of six countries of the region. It is to be regretted that it was not found possible, although the Commission recommended it, to include a section on Investment, which would reveal proportions of national income devoted to investment, the sources of capital so invested, and details of foreign capital investment. This calls for studies on national income and investment which are not yet available in the region; some of these studies are, however, being planned.

The *Survey* is the co-operative work of all the substantive Divisions working in collaboration with the Research Division of the Secretariat. Acknowledgements are also due for the assistance rendered by the several Divisions of the Department of Economic Affairs, by the Population Division of the Department of Social Affairs, and by the Food and Agriculture Organization and other specialized agencies.

The year 1948 has, in general, been a year of all-round improvement in the AFE region, although the progress cannot by any means be regarded as substantial or satisfactory. Such progress as has been achieved was tardy and uneven. Most of the region has continued to be afflicted by civil strife or other disturbances. More than three years after the end of the war, countries find that in no branch of their economy have they attained prewar levels. Agricultural production, which was slightly higher than in 1947, was still less than prewar. Production of cereals was about 4 per cent below the level of 1934-38, but that of fisheries continued to be about one-half prewar. Chemical fertilizer consumption, although higher by about 8 per cent than in 1947, was below prewar by about 16 percent. The increase of over 10 per cent over 1947 in livestock and working animals is encouraging, but it will probably take several

years before prewar numbers can be reached, as their present strength is barely 85 per cent of prewar. With the exception of rubber, which has exceeded prewar levels of production, the position of other industrial and agricultural products remains unsatisfactory.

The disappointing progress achieved may be judged particularly in terms of the production of coal and iron. Handicapped by the disturbed conditions in China and Indochina, coal production has advanced only slightly over the poor level of 1947, and is less than 70 per cent of prewar. If Japan is excluded the position appears much worse, output having declined appreciably compared even with 1947. The production of iron-ore has shown a very slight improvement over the 1947 level, which was, however, only about one-third of prewar.

The region's output of chemical fertilizers, pig iron, steel, and cement increased by one-fifth to one-third over 1947. If Japan and Korea are excluded, the picture is rather different; output of pig iron and steel in the ECAFE region declined, while there were very substantial increases in production of chemical fertilizers and crude petroleum.

In respect of textiles, which next to food are the most urgent need of the people, the region has made little progress during the year. The mill consumption of raw cotton has remained much the same as in 1947 but is far below prewar owing to the continued disorganization of Japanese industry. Yarn production has shown only a slight increase owing to shortages of raw cotton and continued lack of machinery for replacement. Last year's *Survey* emphasized the urgency of restoring the transport system, which was suffering from wartime deterioration and destruction, but rehabilitation and reconstruction continue to be exceedingly low. This has hindered not merely agricultural and industrial production but also the movement of food supplies to the food deficit countries. The restoration of prewar capacity is still impeded by political conditions and shortages of materials, equipment and technical personnel. Even where restoration has been possible, it has often been only temporary, and transport has been subject to constant breakdowns and interruptions.

In the sphere of international trade, 1948 marked a distinct improvement over 1947 in all respects. The values of both exports and imports increased while there was a decline in the adverse balance of trade. Exports from the ECAFE region rose by 34 per cent but imports by 20 per cent, with the result that the adverse balance of trade declined by 31 per cent. Some countries were able to re-establish a positive balance of trade, while in certain others the negative balance declined significantly. In respect also of the ECAFE region's trade balance with the

United States, there was an appreciable improvement. In particular, the region's dependence on imports from the United States was reduced, the proportion of imports from the United States to total imports declining considerably in almost every country. This reduction in dollar deficit was, however, the result mainly of stringent restrictions on imports from the dollar region and does not necessarily indicate a genuine improvement arising from increased exports to and reduced import needs from the United States.

Despite the welcome trends of 1948, there can be no ground for complacency. Instead of the prewar favourable trade balances *vis-à-vis* both the United States and the rest of the world, there are still serious deficits. This drastic turn in the trade balance, not compensated by the reductions which have taken place in the debit balance on non-trade items, presents a grave threat to the external financial position of the region. Moreover, certain factors adversely affecting the region's trading position, notably the relatively low price of rubber and the increased competition from synthetic rubber, the declining demand for natural silk, and the decline in metal exports, seem to be of a lasting character. Compared with prewar, the position of the ECAFE region has undergone considerable deterioration in respect of many of the principal commodities in international trade, in particular, cereals, sugar, fats and oils, cotton, silk, jute and hard fibres. Only sustained efforts can maintain the improved trend of 1948.

Despite the efforts of several countries to combat inflation, the AFE region is still subject to inflationary pressures, mainly due to the continuing deficit financing of public expenditures, combined in some cases with excess of capital expenditure over the volume of current savings. The increase in public revenue has been more than offset by increases in expenditure, with the result that deficits in 1948 were larger than in 1947 except in the case of Ceylon, Japan and Siam. Expenditure on defence has continued to be an extremely heavy burden to the countries in the region. The position of industrial labour has remained more or less the same as in 1947, while in certain countries real wages have shown some improvement. It is encouraging to note that countries are taking steps to reorganize their banking structure. The establishment of central banks in three countries of the region is a noteworthy development. Early in 1949, Siam became a member of the International Monetary Fund and the International Bank for Reconstruction and Development; Ceylon and Pakistan are expected to do so soon.

Nearly four years have elapsed since the end of the war, but the process of reconstruction and rehabilitation of Asian economy has been very slow. Some satisfaction may be derived from the fact that during

these four years, in spite of political difficulties and civil strife, there has been an all-round improvement over the immediate postwar situation; on the other hand, the food position remains unsatisfactory. The four per cent decline below prewar in the production of cereals, the staple food of Asians, has been accompanied by a 10 per cent increase in the region's population. Instead of being a net exporter of rice, the region has become a net importer of rice and other cereals. The decline in *per capita* consumption of food must inevitably have affected general living standards and health conditions. In the absence of reliable demographic data, it is difficult to estimate the effects on the incidence of mortality and sickness. The *per capita* consumption of clothing has also failed to reach prewar levels. Capital investment has remained at low levels, and productivity of labour appears to be less than prewar. Thus, the devastation and economic consequences of the war, having left the region in a condition little short of collapse, continue to exercise their malignant influence. When more than half the world's population lives in conditions of such utter poverty, there cannot exist a sound basis for enduring peace. More sustained and organized efforts are called for on the part of Governments and peoples if the levels of living and consumption are to be maintained and improved.

Economic Commission for Asia and the Far East

P. S. LOKANATHAN,
Executive Secretary

15 May, 1949

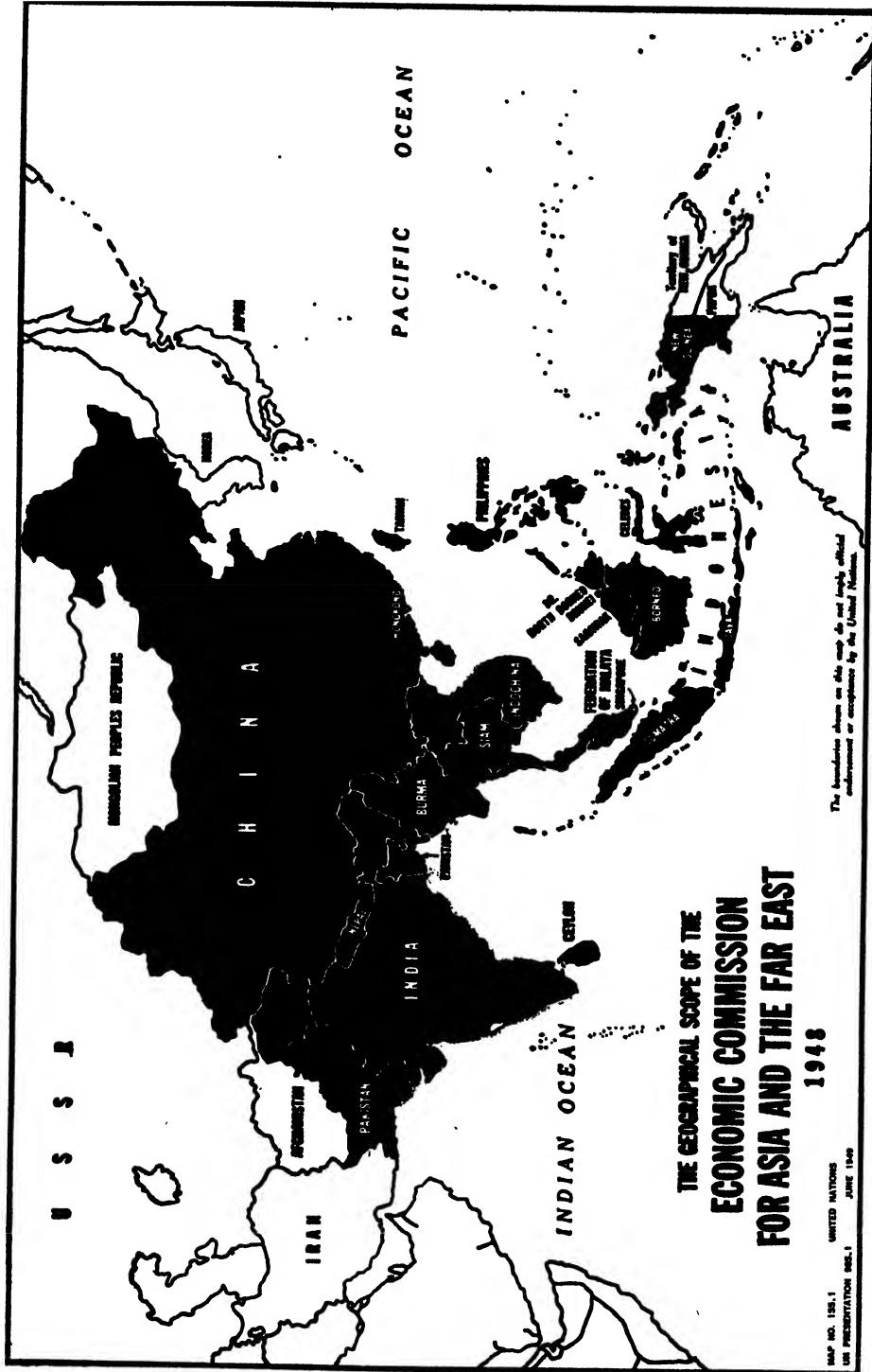
SYMBOLS EMPLOYED

The following symbols have been used throughout this *Survey*:

.. = *not available*; — = *nil or negligible*.

In referring to combinations of years, the use of an oblique stroke — e.g., 1947/1948 — signifies a 12-month period (say from 1 July, 1947 to 30 June, 1948). The use of a hyphen — e.g., 1947-1948 — signifies the full period of calendar years covered (including the end years indicated) either as an average or total, as specified.

Unless the contrary is stated, the standard unit of weight used throughout is the metric ton.



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PART ONE

GENERAL

CHAPTER I

Characteristics of Asian Economy

PREDOMINANCE OF AGRICULTURAL PRODUCTION

The countries of Asia differ widely in race, language, religion and other aspects of culture. Politically, socially and economically, their developments are not of the same order. Yet homogeneity in the midst of diversity is apparent in all these countries; it lies in the predominance of agricultural production. Primary employment, as distinct from employment in secondary or tertiary industry, is still dominant in all countries of the region. Even Japan is not an exception in this respect. Of the total population gainfully employed in Japan in 1947, 52 per cent were in agriculture, as compared with 22 per cent in manufacturing, and 7 per cent in trade and commerce. India, ranking second to Japan in industrial development, in 1931 had 67 per cent engaged in agriculture, with 10 per cent in manufacturing and 5 per cent in trade and commerce. In other countries of the region,¹ the proportion of population gainfully employed in agriculture was much greater, being 89 per cent for Siam, 73 per cent for Korea, 70 per cent for Burma, 69 per cent for the Philippines and 61 per cent for Malaya; the proportions gainfully employed in manufacturing were respectively only 2 per cent, 7 per cent, 11 per cent, 11 per cent and 12 per cent. This predominance of agriculture in Asian countries is in striking contrast to the industrially advanced countries such as Great Britain, the United States, Germany and France, where the proportions of gainfully employed population in agriculture were respectively 6 per cent (1931), 17 per cent (1940), 26 per cent (1939) and 36 per cent (1931).²

Agriculture in Asian countries is a precarious occupation, not only because it is dependent on nature, but also because in many countries, especially in South-east Asia, the crops grown are limited in variety, catering for export rather than for home consumption. As shown in table 36 of the 1947 *Survey*, which gave the percentage distribution of

¹ See table 42 in the chapter on Labour; *Infra*.

² *Yearbook of Labour Statistics, 1945-46*, Ninth Issue, International Labour Office, Montreal, 1947, pp. 7-19.

the acreages of principal crops in selected countries of the region, three countries have over 70 per cent of their total acreage under rice, namely, Siam with 94 per cent (1937-38), Indochina with 83 per cent (1937) and Burma with 72 per cent (1940-41). Other countries, mainly in South-east Asia, also have a high percentage of acreage devoted to crops produced largely for export, such as coconut, tea, sugar cane, jute, abaca and rubber.

The dominant position of agriculture, coupled with the lack of diversified agricultural production, renders the economy of some countries of the region extremely vulnerable. As shown by the experience of the interwar years, the prices of primary products such as rubber, tea, silk, jute, etc., are subject to wide fluctuations. A small excess in supply over demand may easily depress prices very considerably. Not only in times of depression did the terms of trade turn against the countries exporting these primary products, but even in years of world-wide shortage, as now, some countries engaged in primary production are found to be in an unfavourable situation as the prices of their products have not risen as steeply as those of their principal imports, notably textiles and foodstuffs. The situation has been made worse by the emergence of synthetic products which compete successfully with natural products such as rubber and silk.

Although the region is predominantly agricultural, some countries, notably China, India, Malaya, Ceylon and also Japan, are at present suffering from food deficits. The situation is in some cases comparatively new, and arises basically from the pressure of population on land in the countries concerned. In the last few years, it has been accentuated by the fall in production of the rice-surplus countries in the region and by difficulties in securing freely convertible foreign exchange for the import of food from other areas. This new situation brings out clearly the inherent weakness in some countries of undue concentration on primary production for export.

UNDER-DEVELOPMENT OF INDUSTRIAL RESOURCES

Basic industrial resources, such as coal, petroleum, iron-ore and hydroelectric sites, exist in varying degrees in countries of the region. Although knowledge is inadequate, reserves of basic minerals are known to be substantial. Development and utilization, however, have been slow, and resources remain for the most part relatively unexploited.

Because of the inadequacy of estimates, the ECAFE Secretariat is now undertaking a review of all surveys which have been made relating to coal, iron-ore and other ores used in the making of steel.

The ECAFE Industrial Development Working Party put reserves of coal in the region at more than 300,000 million tons. Most of these reserves are in China; India also has large quantities. Known reserves of anthracite are concentrated in China and Indochina; of coking coal in China and, to a large extent, in India. Japan also has coking coal deposits but these are not of good quality. The known coal reserves of other countries in the region are relatively small and are of medium to poor quality.

Against the large total reserves, coal production has been relatively small. Maximum annual output of coal for the entire region has been only about one-quarter of the current United States output. Mechanization of coal-mines has made little progress, and mining is carried on mainly by labour. Many deposits have not been developed at all.

Estimated reserves of petroleum are small—less than 3 per cent of the world total. However, large parts of the region have been inadequately explored for petroleum. In 1947 the region's total output represented less than 1 per cent of world production. The largest known reserves and the greatest production of petroleum in the region are in Indonesia. Petroleum resources of Burma and Brunei are also substantial. Although little production has taken place it is believed that reserves exist in China. Petroleum is also produced in smaller volume in Pakistan, India and Japan.

Iron-ore reserves of the region are considerable, and exist in a number of countries. India, followed by China, has the largest known reserve. The Philippines and Malaya also have rich deposits which were formerly exploited for export to Japan. Smaller reserves exist in other countries of the region. Except in India and China, and to a much lesser extent in Japan, coking coal and iron-ore deposits in close proximity have not yet been discovered in other countries. Known coking coal reserves are not widely distributed and this handicaps the greater exploitation of iron-ore resources.

Total potential hydroelectric power resources of the region are substantial, but the installed capacity is only a fraction of the potential. Japan alone has more than twice as much installed capacity as the other countries of the region combined. Excluding Japan, installed hydroelectric capacity in the region is only about 5 per cent of the potential.

LOW PRODUCTIVITY

Another characteristic of Asian economy is its extremely low productivity; this arises from a number of factors, social, political and economic. Among the economic factors the more important are the

predominance of agricultural production along traditional lines and the extremely limited use of mechanical power as a source of energy.

Despite the fact that agricultural production along traditional lines in Asian countries calls for the employment of a much higher proportion of total population than is required in more industrialised nations, the yield per area unit is much lower than in the latter. This is illustrated by the comparative yields for the three principal Asian crops, namely, rice, wheat and raw cotton. The 1946 wheat yield in quintals per hectare, 10.5 in China Proper,¹ 10.2 in Japan, 7.5 in Korea and 6.5 in India, compared poorly with 11.6 in the United States. The highest wheat yield in Asian countries (10.5 quintals per hectare for China), was less than one-third of the highest yield in European countries (33.1 quintals per hectare for Denmark). The rice yield per hectare, 25.2 in China Proper, 20.4 in Korea, and 12.3 in India, compared poorly with that in Italy (38.5) or Spain (42.6), mainly because of extension of rice production to inferior and inadequately irrigated soils. Japan, however, reached a yield of 36.9 quintals per hectare. Similarly, the 1946 cotton yield per hectare, 2.2 quintals in China Proper, and 1.1 quintals in India, was lower than that for the United States (2.6), Mexico (2.7) or the Union of Soviet Socialist Republics (3.7). This great disparity in crop yields between Asian and other countries arises partly from differences in soil and climate and partly from other factors, of which perhaps the outstanding one is the comparative application of labour and capital. Broadly speaking, whereas Asian agriculture has a high labour intensity, European and North American agriculture has a high capital intensity.

The intensive application of labour to agricultural production results in low productivity of farm labour. According to one study,² China's average production of grain-equivalent per man-equivalent for a sample of 168 localities is 1,400 kilograms, or about one-fourteenth of the average of 20,000 kilograms for the United States. This low production in China per man-equivalent is the real reason for the low standard of living as compared with the United States. It also explains why one-quarter of the total population who are on farms in the United States can provide more agricultural products *per capita* than can three-quarters of the total population of China.

Among other factors responsible for low productivity in the region are lack of savings to develop improved techniques, wasteful systems

¹ "China Proper" originally referred to the 18 densely populated provinces, thus excluding Manchuria, Taiwan, Tibet, Inner Mongolia, Sinkiang, etc. See table 1 for present population and area.

² Buck, John Lossing: *Land Utilization in China*, Commercial Press, Shanghai, 1947, pp. 268, 283.

of land tenure (including fragmentation of holdings), and social customs affecting land utilization (e.g., grave-land in China).

PRESSURE OF POPULATION ON RESOURCES

The pressure of population on land has always been acute in Asia and the Far East, especially in China, India and parts of South-east Asia, and also in Japan and Korea. Despite the high mortality rate, the rate of natural increase, which in some countries is as high as 1.5 per cent per annum, has been maintained by a high fertility-rate. In countries where modern improvements in public health and sanitation have been introduced in the wake of industrialisation, there has been a decline in the death-rate without as yet a corresponding reduction in the birth-rate. In India, the extension of modern transportation has also helped to reduce the human loss from famines and this has contributed to the decline in the death-rate between 1921 and 1941, but there has not been a proportionate decline in the birth-rate. Unlike the surplus of population, following European industrialisation in the nineteenth century, which was able to migrate on a large scale to the American continent, the increasing population of Asia and the Far East has not been able to find an adequate outlet in new lands. The pressure of population on land in the region has thus become increasingly acute as modern science and technology have been applied. Even in Japan, where before 1940 the expanding industrial economy was able to absorb a rapid population increase in urban areas and to prevent the development of excessive population density on the land, the previously declining trend of the birth-rate has, since 1940, been at least temporarily arrested while the death-rate has further declined; so that the rate of natural increase has reached a high level. Moreover, the increase in Japan's population has been heavily reinforced by the repatriation of Japanese nationals from overseas.

Population density in most countries of the region has risen to a very high level. The AFE region, with an area of 19,032,000 square kilometres and a population of 1,142,332,000 in 1947, had an average density of 60 persons per square kilometre. However, as shown in chapter II on "Population Trends", almost 900 million people in Japan, Korea, China Proper, Taiwan, Hong Kong, Singapore, India, Ceylon, Java and Madura, or 80 per cent of the region's population, are concentrated in an area of 8 million square kilometres, or 42 per cent of the region's area; for this area there is thus an average density of 112 persons per square kilometre. This roughly corresponds to the average density for India (105), Ceylon (104) and China Proper (99), but is

lower than that for Java and Madura (382), Japan (204), and Korea (125).

This average density of 100 to 200 persons per square kilometre in most countries of the region, which with the exception of Japan are still agricultural, is high even in comparison with industrialised countries. For example, the average density in 1947 for the Union of Soviet Socialist Republics was only 9, for the United States 18, and for France 73. Yet average density per unit of area often tends to underestimate the pressure of population, as the proportion of cultivated lands to total area may vary considerably, e.g., from 8 per cent for Indochina to 79 per cent for Java.¹ The population density in terms of cultivated area therefore tends to be much higher than that in terms of total area. For the region as a whole, it is 404 persons per square kilometre of cultivated land. For Taiwan it is as high as 645, for the Philippines 494, Java and Madura 452, Indochina 451, Ceylon 444, China Proper 425, Pakistan 408, Siam 347, India 345, Federation of Malaya and Singapore 290, Manchuria 245, and Burma 240. In Japan the equivalent figure is 1,300, while in Korea it is 629.

POVERTY

The four main characteristics of Asian economy outlined above point to one inevitable result, poverty. The increased wealth of the nineteenth and twentieth centuries has been highly concentrated in a few countries, and only a small proportion of it has been created in countries of Asia and the Far East. As summed up by one writer, "the United States, Great Britain, France and Germany, representing 13 per cent of the world's population, owned almost 50 per cent of the world's goods, and more than two-thirds of the world's income was reserved for less than one-third of the world's population."²

When there is pressure of population on the means of subsistence, poverty tends to be self-perpetuating. The food available per head of population is little more than is necessary for mere maintenance, sometimes even a little less. There is no source of energy for more active work in the present and no margin for saving from which capital can be accumulated to assist production in the future. It is only when the available calories per head of population substantially exceed 2,000 per day that economic progress can be expected. A marked development of energy and accumulation of capital can hardly be expected till a level of 3,000 calories per head per day is attained. So long as the

¹ *Economic Survey of Asia and the Far East, 1947*, p. 49.

² Rosenstein-Rodan, "The International Development of Economically Backward Areas", *International Affairs*, Vol. II, No. 2, April, 1944, p. 158.

growth of population keeps pace with the growth of production in the ECAFE region, there can be no adequate increase in the rate of saving, the accumulation of capital or the productivity of the individual. But if ever the rate of increase of production outstrips the rate of increase of population, savings may begin to accumulate and capital resources to grow more rapidly in each successive period.

A rough indication of the relative poverty of the region may be obtained from national income statistics. *The Economic Survey of Asia and the Far East, 1947* contained the following estimates of *per capita* income for selected countries in terms of 1946 U.S. dollars: Ceylon \$91, Philippines \$88, India \$43, Indonesia \$35 and China \$23; the equivalent figure for Japan was put at less than \$100. By comparison the *per capita* income of the United States in 1946 was \$1,269 and that of the United Kingdom £165 or about \$660.

CHAPTER II¹

Population Trends

GENERAL CONSIDERATIONS

An adequate understanding of the demographic situation of any country requires at least two basic types of statistics: (1) periodic census figures giving the size of the population and some of its characteristics, especially sex and age composition; and (2) annual statistics of births and deaths. Many countries of the region cannot provide these minimum data.

China, occupying over one-half of the territory of the AFE region and having an estimated population of 461 million in 1947, has never had a national census of population along modern lines, though one has been planned for 1950. Almost all the other areas included in the region have records of censuses taken in the past but few can offer census figures showing the situation after World War II which has influenced the population at least to some extent in all countries and in some cases has profoundly affected its size and structure. Postwar censuses have been conducted only in the Philippines, Siam, the Federation of Malaya, Ceylon, Japan and South Korea. For some of these countries detailed results are yet to be made available. Before the war some countries like India and Pakistan, Burma, North Borneo and Indochina had a long series of decennial censuses, the first census for India going back as far as 1872. Others have not been so regular in taking censuses. The Philippines had no census between 1918 and 1939; Malaya had none between 1931 and 1947.

An efficient system for the registration of births and deaths is the exception rather than the rule in the region; consequently it is very difficult to gain a proper appreciation of the rates at which population is changing due to the excess of births over deaths. This is particularly so in countries without a long series of censuses, where the population figures from each new census, though perhaps more accurate than the re-

¹ Prepared by the Population Division of the Department of Economic Affairs, United Nations.

sults of previous enumerations, may not be exactly comparable with the previous figures and therefore may not give accurate measures of population changes. In small countries which are subject to a large volume of migration, the absence of migration statistics coupled with unreliability of vital statistics make it doubly difficult to estimate the rate of natural increase even if good census statistics are available.

These statistical deficiencies render it almost impossible to draw conclusions about demographic developments of the region in any particular year. All that can be done in this respect is to draw attention to some important phenomena, such as population movements, epidemic diseases of unusual severity, or civil disorders, of which knowledge happens to be available. The censuses and the isolated vital statistics, however, with all their deficiencies, give valuable indications of long-term demographic developments and problems, when studied against the background of the economic and social conditions of the area, and of previous experience in other parts of the world.

As emphasized in chapter I, the economy of the region is primarily agricultural. Some areas have specialized in cash crops, but most concentrate primarily on crops for home consumption. The level of living is low, the health and nutritional status of the people poor, and death-rates high. Much needs to be done to reorganize the economy so as to achieve more effective utilization of natural resources.

In considering long-run demographic development, attention has, therefore, to be focussed on the possibility that the application of modern science and technology in the region may be widely extended. Improved agricultural techniques, greater industrialisation, development of transport and communications and public health measures may greatly alter the past trends of population development. In some of these fields countries of the region have already been applying the knowledge accumulated in the West, and there are reasons to believe that further developments will occur fairly rapidly, in some countries at least, partly on the initiative of the countries themselves and partly through the efforts of such international agencies as the Food and Agriculture Organization and the World Health Organization. Such economic and social developments have an important effect on population growth for they tend to reduce death-rates.

The fact that the populations of the relatively under-developed areas in Asia have managed to survive in face of their high death-rates is proof of the high prevailing birth-rates. Whereas the application of technical knowledge is likely to have a great effect in reducing the death-rate, there is no reason to expect an immediate effect on the birth-rate, which

is intimately related to social institutions and customs that are not easily changed. The net result is therefore likely to be a widening of the margin between the number of births and deaths and an acceleration of population growth. It appears that a process of this kind was the main explanation of the rapid growth of the European populations during the last two centuries. A similar process also appears to have been under way in some oriental communities.¹

Even a moderate reduction in the death-rate, maintained over a long period without a corresponding change in the birth-rate, will eventually have a great effect on population size. For example, a population with a death-rate of 30 and a birth-rate of 40 per 1,000 population per annum has a natural increase of 1 per cent per annum which, if continued, will double the population in about 70 years. A reduction of one-third in the death-rate of such a population with no change in the birth-rate would raise the growth rate from 1 to 2 per cent per annum and cut the time required to double the population from 70 to 35 years. Rates of increase of the order of 1 per cent per annum have been observed in some countries of the region, and census figures suggest rates of the order of 2 per cent in others. Whether the latter increases are real or whether they are due to the increasing accuracy of successive censuses remains problematical, but their implications deserve serious consideration in view of the demographic changes that are likely to follow the application of modern science to living conditions in these countries.

Though the countries of the region share the common characteristic of being industrially backward as contrasted with the West, there are essential differences in their social, cultural and political backgrounds which have led to variations in their demographic situation and their population problems. It is, therefore, appropriate to consider the demographic problems of each country in the region.

DEMOGRAPHY OF COUNTRIES OF THE REGION

Table 1 gives 1947 mid-year population estimates and density figures for each country of the region. In providing these returns, the Statistical Office of the United Nations warned against placing too much reliance

¹ The accelerating rate of population growth in Japan during the second half of the nineteenth century is presumed to have been due to a decline in mortality occurring earlier and more rapidly than a decline in fertility. (Irene B. Taeuber and Frank W. Notestein, "The Changing Fertility of the Japanese", *Population Studies*, Volume I, Number I, 1947.) Among the Parsees in India the death-rate started diminishing at the beginning of this century, with no substantial reduction in the birth-rates until 1925; (Chandra Sekar, C., "Some Aspects of Parsee Demography," *Human Biology*, Volume 20, Number 2, 1948) so that their rate of natural increase rose continuously, reaching a maximum in 1917, the year prior to the outbreak of the world-wide influenza pandemic.

TABLE 1
Population and Area of AFE Countries, 1947

Country	Population ^a , mid-year estimate, 1947 (thousands)	Area ^b (thousands of square kilometres)	Population density (per sq. km.)
British Borneo	878	191	5
North Borneo	330	76	4
Brunei	48	6	8
Sarawak	500	109	5
Burma	17,000	605	28
Ceylon	6,879	66	104
China	461,005 ^c	9,736	48
China Proper	399,172	4,010	99
Manchuria	38,184	1,070	37
Taiwan	6,126	36	170
Remainder of China	17,523	4,621	4
Hong Kong	1,750	1	1,750
India	331,750	3,161	105
Pakistan	72,206	935 ^b	77
Indochina	27,000	740	37
Annam	7,200 ^d	148	49
Cambodia	3,200 ^e	181	18
Cochin-China	5,600 ^e	65	86
Laos	1,200 ^e	231	5
Tonkin	9,800 ^d	116	84
Indonesia	69,000 ^c	1,904	36
Java, Madura	47,000	132	382
Other islands	22,000	1,772	12
Japan	78,025	382	204
Korea	27,700	221	125
Malaya	5,819	136	43
Fed. of Malaya	4,878	135.3	36
Singapore	941	0.7	1,344
Nepal	6,450 ^g	140 ^b	46
Philippines	19,511	296	66
Siam	17,359	518	34
TOTAL	1,142,332	19,032	AVERAGE..60

^a United Nations. Statistical Office. *Total Population for each Area of the World*, 1 November, 1948, pp. 7-9.

^b United Nations. Department of Economic Affairs. *Economic Survey of Asia and the Far East, 1947*, Shanghai, 1948, p. 25.

^c Estimate of population as of July, 1947, from *Statistical Yearbook of the Republic of China*, Directorate of Statistics, Nanking, June, 1948 (in Chinese). The figure published by the United Nations Statistical Office is 463.2 million.

^d Figure for 1943.

^e Figure for 1944.

^f The estimate here is for 1948, and is prepared by the authorities in Batavia in a special supplement for the 1948 Survey. The figure for midyear 1947, as obtained from the Director-General of Netherlands Central Bureau of Statistics and published by the United Nations Statistical Office, is 76 million.

^g *Population and Vital Statistics Reports*, Series A, No. 1, United Nations Statistical Office, 1 January, 1949, p. 7.

^h *The Statesman's Yearbook*, 1948. p. 171.

on their accuracy, remarking that "lack of continuity between censuses and estimates may be evident, as well as inclusion of estimates which are official in character but not generally accepted." Nevertheless, these figures serve to show the general magnitude of population in the various areas.

Tables showing the age distribution and urban-rural ratio for selected areas, were presented in last year's *Survey*. The population of the region is in general much younger than that of the Western European nations and the United States; that is, the AFE countries have larger proportions of children and smaller proportions of older persons, indicating a higher birth-rate and a higher death-rate. An occupational distribution table is given in chapter VII on Labour. Analysis of the rate of population growth is more complicated; it will be taken up in the discussion of individual countries which follows.

China

China is said to possess "a large unbroken record of population estimates."¹ These estimates, however, were not obtained by direct enumeration of the population. In the absence of reliable censuses covering the whole country, little is known of the size of the population of China or the rate at which it has been changing. Willcox estimated that China's population had increased from 70 million in 1650 to 342 million in 1929.² Carr Saunders concluded that China's population had increased from 150 million in 1650 to 450 million in 1933.³ Thompson places the present population of China Proper between 325 and 375 million.⁴ The official estimate of the population of China Proper for 1947 was 399 million, but that for the whole of China, including Manchuria, Taiwan and outlying provinces, was 461 million.

As important as the present size of the Chinese population is its rate of growth. On this subject also, comprehensive statistics are lacking. Attempts at national registration of births and deaths are of recent origin and have not yet advanced far enough to yield reliable data on a wide basis. However, vital statistics have been obtained by concerted efforts in certain small communities. These undoubtedly are of great value in appreciating future population trends. A study in Kiangyin, a community of about 20,000 inhabitants in the Yangtze delta, during the period

¹ Ta Chen, *Population in Modern China*. The University of Chicago Press, Chicago, Illinois, 1946, p. 1.

² W. F. Willcox, *International Migrations*. New York, National Bureau of Economic Research, 1931, II. pp. 35-75.

³ A. M. Carr Saunders, *World Population*. London, Oxford University Press, 1937, pp. 37-39.

⁴ W. S. Thompson, *Population and Peace in the Pacific*, University of Chicago Press, Chicago, Illinois. 1946. p. 178.

1931-35 showed an annual birth-rate of 45.1 and a death-rate of 38.7 per 1,000 population, with an infant mortality rate of 240.9 per 1,000 births.¹ These figures give a natural increase of 6.4 per 1,000 per annum, but "as these birth-rates and death-rates were known to be low, especially the death-rate", the actual natural increase rate may well have been lower. In Ting Hsien health area, the birth-rate for a population of 14,000 was found to be 39.6 per 1,000 in 1933-34². The death-rate dropped from 29.2 in 1933 to 23.8 in 1934 and increased to 29.1 per 1,000 in 1935.

It may safely be presumed that the Chinese birth-rate, in normal times, is over 40 per 1,000 population. The death-rate, according to Thompson, "probably seldom falls below 35 and then only under conditions quite exceptional in China such as in a small area where there is some health work or in a 'good' year when the harvest is abundant and epidemic diseases are mild." In a country with such a vast population, changes due to migration across the frontiers are relatively unimportant, the bulk of the change being brought about by natural causes, namely, births and deaths.

Famine and food shortage are common in China, and in a year when crops fail, the lack of transportation makes relief measures difficult. Meagre facilities of public health and sanitation coupled with the low vitality of the people are responsible for regular outbreaks of epidemic diseases like smallpox, typhoid and cholera which makes the death-rate soar above the birth-rate. The fluctuations thereby introduced into the rate of natural increase are well demonstrated by the following figures for Hsiao Chi, Kiangyin, abstracted from the Kiangyin area study mentioned previously:

Year	Birth-rate per 1,000 midyear population	Death-rate per 1,000 midyear population	Natural increase rate (birth-rate minus death rate)
1931-32	48.3	42.8	5.5
1932-33	44.1	36.1	8.0
1933-34	40.0	52.0	— 12.0
1934-35	48.0	23.8	24.2

In recent years famines in the north-west, drought in the north, floods in the lower Yangtze Valley, the hardships of World War II and the subsequent internal disturbances have cost great loss of life in China. The displacement of very large number of persons has also occurred, creating new demographic problems. Available evidence indicates that China's growth of population even in peaceful times is mainly determined

¹ *Ibid.*, p. 180.

² C. C. Chen, "The Rural Public Health Experiment in Ting Hsien, China," *Milbank Memorial Fund Quarterly*, Vol. XLV, No. 1, Jan. 1936, pp. 66-80.

by mortality. When peace returns and organized efforts are made to improve the standard of living, it is reasonable to expect a drop in mortality rates. Unless the high birth-rate is reduced, a large increase in population will result.

Manchuria. Little is known precisely of the population trends in Manchuria. On the basis of the inconsistent and unreliable estimates of population of this area during the last few decades, it can only be said that Manchuria's population at the end of 1940 is somewhere about 35 million.¹ By comparison with China Proper, Manchuria is sparsely populated, and therefore might in future play an important part in relieving pressure of population of neighbouring areas. In 1939, the Chinese formed about 95 per cent of the population. Chinese migration into Manchuria started towards the end of the eighteenth century, but it was not until 1878 that the official barrier to migration into the area was lifted. Since then a steady stream of Chinese peasants has flowed into Manchuria, especially from the North China provinces of Shantung and Hopei. The Mukden incident in 1931 set a temporary check to Chinese immigration and led in 1932 to the formulation of elaborate schemes by the Japanese Government to settle 100,000 subsidized farming families in the area within ten years. Japanese immigration between 1932 and 1938 was reported to consist of 10,000 families and 20,000 boy settlers (unmarried men between 16 and 20).² Koreans also started migrating into Manchuria under controlled schemes during the early thirties. At the conclusion of World War II, Manchuria again came into Chinese possession, and Japanese nationals also were repatriated.

Taiwan. After the conclusion of the first Sino-Japanese War of 1894-95, Taiwan (Formosa) was ceded to Japan. There was a rapid growth of population in Taiwan, especially in the two decades before World War II. The vital statistics show that during the period 1920-24, the average birth-rate was 41 per 1,000 and the death-rate 26 per 1,000, giving a rate of natural increase of 1.5 per cent per year.³ During the period 1933-37 the birth-rate was 46 and the death-rate 21, giving a rate of natural increase of 2.5 per cent per year.⁴ These vital statistics are consistent with the census figures for corresponding periods. Between 1920 and 1925 the population increased from 3.7 million to 4.0 million, giving a rate of increase of 1.6 per cent per year. Between 1930 and 1940 it increased from 4.6 to 5.9 million, the rate being 2.5 per cent per year.

¹ W. S. Thompson, *op. cit.*, p. 80.

² John R. Stewart, *Far Eastern Survey*, Vol. VIII, p. 42.

³ *The Japan Year Book*, 1927, p. 641.

⁴ Andrew J. Grajdanzev, *Formosa Today*. Institute of Pacific Relations, 1942.

Taiwan's population is largely Chinese, the proportion being about 94 per cent in 1940. The Japanese population increased from 60,000 in 1905 to 167,000 in 1920, and by the end of 1938 was estimated at 309,000. Since the end of World War II, the Japanese, totalling about 480,000, have been returned to their homeland. The estimated mid-year population of 6.1 million for 1947, after allowing for the organized population movement after the war, gives a rate of increase in population of 1.6 per cent per year since 1940.

India and Pakistan

The first census in India was taken in 1872, although it did not cover the entire country. The next census in 1881, and each subsequent decennial census including the last one in 1941, covered practically the whole country. Burma was administered as a part of India until 1937 and its population was included in the Indian census. The creation of Pakistan as a separate State on 15 August 1947 has now reduced the area and population included under the designation of India. No population census has been taken in India or Pakistan since their separation nor has there been proper accounting of the large-scale movement of people between these two areas as a result of the political division. The political status of what were formerly known as the Indian States, in contrast to British India, has undergone a great change since India acquired sovereignty. Some of them have been formed into a federation; some have been annexed to neighbouring provinces and some, like Kashmir, have as yet an undefined position. In such circumstances it is difficult to be precise about the size of the population in either country at the present time. Partly for this reason and in view of the fact that the separation has been only recent, India as it existed before the partition of the States (i.e. including Pakistan, but excluding Burma) is taken as the unit for consideration in this chapter.

Between 1872 and 1941 India's population, as reconstructed from the census returns by allowing for the inclusion of new territory and for improvement of method, increased from 256 million to 389 million, or by 52 per cent. Figures showing the rate of growth of the population in the different decades are given below:

Year	Population in millions	Per cent intercensal increase
1872	256.4	
1881	259.3	1.4
1891	283.0	9.5
1901	285.6	0.9
1911	303.0	6.1
1921	305.7	0.9
1931	338.2	10.6
1941	389.0	15.0

The striking features of the rates of increase are their wide fluctuation and the fact that, until 1931, a period of lower increase was always followed by one much higher, and *vice versa*. Between 1872 and 1921 the rate of population growth fluctuated in accordance with the occurrence of famines and epidemics. The low rate of increase in the period 1872-81 is ascribed to the great famine of 1876 to 1878, which not only caused enormous loss of life directly but also led to the outbreak of widespread epidemics. Famine was again responsible for the low rate of increase during the decade 1891-1901. The influenza pandemic of 1918, which is said to have taken a toll of not less than 8.5 million, is reflected by the low increase from 1911 to 1921. From 1921 to 1931, the population grew at an average rate of 1.0 per cent per annum, and the corresponding rate as recorded for the period 1931-41 was 1.4. The accuracy of these figures, especially the latter, is in doubt. The census commissioner in his report on the 1941 census points out that whereas during the 1931 census the civil disobedience movement made it difficult to obtain a good response from the public, in 1941 there was an excess of zeal on the part of some sections of the population to inflate the figures. Remarking more specifically on the intercensal increase he states, "the heavy Bombay and Bengal increase is undoubtedly due to under-enumeration in 1941 being overtaken now."¹ Even if the recorded intercensal increases were exaggerated, their general magnitude is such as to create doubt about the possibility of a long-term continuance of such rates in a country which already is finding it difficult to improve its low level of living.

Since migration is known to have little influence on India's population size, the important questions that arise are: (1) whether a downward trend in death-rates has been established and, if so, whether further reductions are to be expected considering the possible intensification of public health and sanitation measures and attempts to improve the level of living; (2) whether birth-rates have shown any tendency to diminish at all, for otherwise, with falling death-rates, a rapid increase in population would be expected. Precise answers to either of these questions cannot be given, for in spite of a long history of registration of births and deaths, the vital statistics are far from complete.

However, some indications of the levels and trends of fertility and mortality are available. The following birth-rates and death-rates for the different decades have been estimated by Kingsley Davis, using indirect methods and relying mainly on census statistics.²

¹ *Census of India, 1941, Vol. I Part I*, p. 9.

² Kingsley Davis, "Demographic Fact and Policy in India", in *Demographic Studies of Selected Areas of Rapid Growth*. Milbank Memorial Fund. 1944, p. 41.

Decade	Birth rate	Death rate	Natural increase rate
1881-1891	49	41	8
1891-1901	46	44	2
1901-1911	49	43	6
1911-1921	48	47	1
1921-1931	46	36	10
1931-1941	45	31	14

Using these estimates as rough guides, it would appear that a steady decline in death-rates may have occurred in the period 1921-41. The birth-rate, prior to 1921, apparently tended to rise when health conditions improved and to fall when they deteriorated. In the period 1921-41, however, the birth-rate failed to increase though famines and epidemics were absent; in fact it appears to have diminished. The unprecedentedly high rate of natural increase in 1931-41 seems to have been due mainly to the reduction of the death-rate.

The question has been raised whether the trend of natural increase indicated by the 1921-41 experience would not, in the absence of sweeping economic development, inevitably lead to recurrent catastrophes, as in the past. More concretely, it has been recommended that measures be taken to reduce the fertility-rate in order to prevent the death-rate from returning to its previous level.¹

The vital statistics since 1941 make one wonder whether the decline in the death-rate during the two preceding decades will continue in the decade 1941-1951. The Bengal famine of 1942-43 and the heights to which death-rates from smallpox, cholera and malaria soared at that time, the famine in the Madras Presidency during 1942-43, and the shortage of food supply in Travancore State during 1943-1946, are reminders that the economy has still to advance a great deal to ensure security of life for India's large population.

The recorded birth-rates since 1941 are well below those recorded previously. It is impossible to determine to what extent the lower rates are attributable to the machinery of registration having been impaired by the exigencies of war work and to what extent they may represent a real reduction of fertility. The fact that, in a small rural community of 60,000 near Calcutta, birth-rates as high as 46.1 and 59.8 per 1,000 were recorded for 1945 and 1946² suggests that more will have to be known about the accuracy of registration before much importance can be attached to the decline in birth-rates.

It is reasonable to look forward to a decline in the death-rate. The present trend in planning the future public health activities of the coun-

¹ Frank W. Notestein, *Demographic Studies of Areas of Rapid Growth*. Milbank Memorial Fund. 1944, pp. 140-41.

² Report of the All India Institute of Hygiene and Public Health. India. 1946-47.

try is shown in the Report of the Health Survey and Development Committee¹ which contains suggestions for short-term and long-term programmes for improving the health of the nation. With an infant mortality rate rising to 200 per 1,000 live births in many parts of the country, with smallpox and cholera manifesting themselves regularly in epidemic forms, with malaria forming the most important single cause of death, the possibility of reducing the death-rate substantially by social services is apparent. There is less certainty regarding the likelihood of an early reduction of the birth-rate. Studies by Kingsley Davis suggest that Indian fertility "is controlled to a considerable degree by indirect, institutional, non-deliberate customs, such as the taboo on widow remarriage"² and that when such institutional checks are relaxed, fertility may tend to increase.

The spread of education and the weakening of social barriers of the Hindu caste system will have an eventual effect on the birth-rate. A survey³ in a middle class section of Calcutta revealed that of girls married between 1943-48, the age of marriage was 16.8 years, about five years older than the average age a generation before. It was also found that 20 per cent of all married women between the ages of 12 and 50 years desired to limit the size of family and that about 13 per cent had actually attempted to do so. These may be the start of a movement which, should it gather strength, will make the increase of India's population less rapid.

Burma

The population of Burma has been growing rapidly. From 10.5 million in 1901 it grew to 16.8 million in 1941. The rates of growth are shown in the following census figures:

<i>Year</i>	<i>Population (in millions)</i>	<i>Rate of annual increase (per cent)</i>
1901	10.5	
1911	12.1	1.4
1921	13.2	0.9
1931	14.7	1.1
1941	16.8	1.3

In the absence of accurate vital statistics or immigration statistics it is difficult to appreciate clearly the implications of the changes in the rates of growth. The slackening during 1911-21 is probably attributable to the influenza pandemic. The higher rate of increase during 1931-41

¹ *Report of the Health Survey and Development Committee*, Vols. I-IV. New Delhi, Government of India Press, 1946.

² Kingsley Davis, "Human Fertility in India", *American Journal of Sociology*, Nov. 1946.

³ *Results of an Enquiry into Reproductive Patterns of Urban and Rural Population*, Indian Research Fund Association, 1947 (unpublished).

as compared with the preceding decade is of particular interest in view of the likelihood that net immigration into Burma was not very different in the two decades. It is not unlikely that the increased rate of growth was due to lowered mortality rates.

During World War II Burma was a battlefield and the loss of life must have been heavy. Large-scale emigration of Indian residents also occurred. The estimate of 17 million used officially would imply practically no increase since 1941.

Ceylon

The first population census of Ceylon was taken in 1871. Since then every census has revealed a rapid rate of increase of the population. The rates were:

<i>Year</i>	<i>Population (in millions)</i>	<i>Rate of annual increase (per cent)</i>
1901	3.6	
1911	4.1	1.3
1921	4.5	1.0
1931	5.3	1.8
1946	6.7	1.6

Apart from the influence that the immigration of Indian workers may have had on these rates, the smaller rate of increase in the decade 1911-21, as compared with 1921-31, may probably be largely attributed to the influenza pandemic of 1918. Similarly, the slightly lower rate for 1931-46 was probably caused by the malaria epidemic of 1934-36. Except for a temporary rise during the malaria epidemic, the death-rate has been showing a slow but continuous decline throughout the last two decades. Easily controllable infectious diseases like smallpox and cholera have been practically eliminated. The birth-rate, however, has not yet shown a downward trend. With recorded birth-rates over 35 per 1,000 there is every prospect that the population will maintain a high rate of growth in the next few decades, ranging between 1.2 and 1.5 per cent per year.¹

The anticipated rate of increase would imply the doubling of Ceylon's population in about five decades.

Siam

Since 1911 five population censuses have been carried out in Siam, the last in 1947. During this period the population has grown from 8.3 million to 17.3 million, showing an average rate of growth of 2 per cent per year:

¹ *Annual General Report on the Economic, Social and General Conditions of the Island, 1947.* Ceylon Government Press, Colombo.

Year	Population (in millions)	Rate of annual increase (per cent)
1911	8.3	
1919	9.2	1.2
1929	11.5	2.3
1937	14.5	2.3
1947	17.3	1.8

Such a rapid increase would seem improbable unless a substantial part of it were accounted for by immigration, by increasing accuracy of census enumerations, or by expansion of areas covered by the census.

There is evidence that at least a small part of the increase between 1929 and 1937 can be explained by immigration, mostly Chinese. According to the shipping figures at Bangkok, which cover the bulk of foreign passenger traffic, the net excess of arrivals over departures in 1927-28 was 76,359. In 1933-34 and 1934-35 the net immigration gave place to a net out-movement. During the whole period 1929 to 1937 the average annual increase due to immigration was 9,106, compared to an average annual population increase of 369,737 as recorded by the census.

Between 1937 and 1947 Siam experienced temporary changes in its territory. Indochinese territory having an estimated population of 600,000 was added in 1941; Malay territory, with a population of 1,150,000, and some Shan territory was added in 1943. Return to previous frontiers was effected before the census of 1947, which did not therefore include the population of these territories.

At present, Siam has a density of 34 per square kilometre, which cannot be considered high. But it is an overwhelmingly agricultural country with 89 per cent of the people working on the land. The 1947 census figures, showing that only about 10 per cent of the population was over 50 years of age, clearly indicate that there is room for improvement in health conditions. Assuming improved health, the natural increase will probably maintain a level of at least 1 to 1.5 per cent per year.

Indochina

The population of Indochina was 23 million according to the latest census, in 1936. The three quinquennial censuses preceding it indicate, if the figures are comparable, widely fluctuating rates of increase in different periods. From 18.8 million in 1921 the population increased to 21.1 by 1926, giving a rate of increase of 2.4 per cent per annum. According to the 1931 census the population was 21.5 million. Between 1931 and 1936 the population increased at the rate of 1.4 per cent per annum. In the absence of reliable vital statistics, it is difficult to interpret such wide variations in growth.

A major population problem of Indochina arises "from the unequal distribution of the population over the land rather than from too great numbers in the country as a whole."¹ The population is concentrated heavily in the great alluvial plains near the sea, where the flooding of the fields due to heavy rainfall makes irrigation unnecessary. The lack of communications was formerly a great obstacle to the achievement of a more rational population distribution, but a good deal of road and railway net work had been completed before the war.² The aversion of the Annamite peasants to leave their alluvial homelands is tied up with their traditional social and religious patterns. Inducements to move offered by the administration of Indochina remained mostly fruitless. Vast irrigation works were necessary to permit an intensive utilization of the soil and thus maintain or improve the low levels of living of the increasing population attached to it.³ A greater mobility of the people is among the factors affecting a better correspondence between manpower and natural resources.

Federation of Malaya

The Federation of Malaya is remarkable for the variety of ethnic groups which form substantial parts of the population. Of the 4.4 million enumerated in the 1931 census (including the population of Singapore), 37.5 per cent were native Malays, 39.0 per cent were Chinese, 14.2 per cent were Indians, 7.2 per cent were "Other Malayans", meaning immigrants from Thailand and Indonesia, and the rest was made up of Europeans, Eurasians, etc. The racial composition varied widely in the different regions. The Malays, including "Other Malayans", formed 25.6 per cent in the Straits Settlements, 34.7 per cent in the Federated Malay States and 69.6 per cent in the Unfederated Malay States. The Chinese were a major group in the Straits Settlements, constituting nearly 60 per cent. The Indians, of whom the bulk came from the Madras Presidency, were most heavily represented in the Federated Malay States, where they formed 22 per cent of the population. Few of the Chinese and Indians can be considered as permanently settled.

The rubber plantations and tin mines have been the main inducements to the immigration of Indians and Chinese. Because of this immigration, the population grew rapidly before World War II, increasing from 2.7 million in 1911 to 5.4 million in 1939. The census of 1947 gave

¹ Pierre Gourou, *L'Utilisation du Sol en Indochine française*. Publication No. XIV of the *Centre d'Etudes de Politique étrangère*. Paris (1940), in particular, part II on the distribution of the population, pp. 91-188; Warren S. Thompson, *op. cit.*, p. 283.

² *Economic Survey of Asia and the Far East, 1947*. p. 39

³ Pierre Gourou, *op. cit.*, and Charles Robequain, *Evolution économique de L'Indochine française*. *Centre d'Etudes de Politique étrangère*. Paris, 1939.

the population of the Federation of Malaya as 4.9 million and of Singapore as 940,000.

The Federation of Malaya has all the demographic characteristics of an area with large-scale immigration of foreign nationals. The sex ratio is abnormal, being heavily weighted by men. In 1931 there were 688 females to 1,000 males. This disparity is more marked in the non-Malayan born population. The age structure is also peculiar, with a much higher proportion than normal in the age group 20 to 34 years. The size of the population fluctuates with the demand for labour. In some years the number of emigrants is far in excess of the immigrants.

The living together of different races and communities not yet integrated into a common social life invests the future problems of demography with exceptional interest.

Indonesia

The main population problem in Indonesia, as in Indochina, is the unequal geographical distribution of the population. Java (with which Madura is usually included) is the smallest of the five major islands of Indonesia, yet it contains about 70 per cent of the total population of the region. With an area of 132,000 square kilometres and a population of about 41.7 million in 1930, Java and Madura had a density of 316 persons per square kilometre, whereas the rest of the region, known as the Outer Provinces, had an area of 1,772,000 square kilometres, but a population of only 19 million, that is, a density of less than 11 per square kilometre.

According to the Census Bureau at Batavia, the population increased from 13 million in 1860 to 30 million in 1905, and to 41 million in 1930. Between 1920 and 1930 the average annual growth of the population of Java was nearly 1.8 per cent, a rate which, if continued, would double the population in less than 40 years.

To cope with the anticipated increase in population, the Government has, since 1930, actively encouraged migration to the Outer Provinces. The number of colonists in these provinces is reported to have increased from 7,000 to 1932 to 60,000 in 1941.¹ The war, however, has interfered with this project, and it has not been possible to gauge the momentum which the movement may achieve in the future. In considering the effect which this scheme might have in reducing the density of population in Java and Madura, it has been pointed out² that the annual increase of population in that area between 1920 and 1930 was

¹ Karl J. Pelzer, *Pioneer Settlement in the Asiatic Tropics*, 1938-39.

² W. S. Thompson, *op. cit.*, p. 259.

about 650,000 or of the order of ten times the maximum annual migration to the Outer Provinces observed so far.

Recent official estimates show a decline in total population (Java and outer islands) due to war losses, from 73 million in 1942 to 68 million in 1946, increasing to 69 million in 1948.¹

Philippines

The population of the Philippines, at the first census taken in 1903 after the United States occupation of the country, was 7.6 million. The census of 1918 gave the population as 10.3 million, and that of 1939 gave 16.0 million. Between 1903 and 1939 the population growth averaged 2.1 per cent per year. It is possible that the censuses have become more accurate, so that the rate of growth shown by these figures may be exaggerated. In any case, the rate of growth has been considerable. As among other colonial populations there was a marked reduction of the mortality rate, but the fertility rate has been affected little, if at all.

It is not surprising that the present trend in population growth and its possible repercussions on the Philippine economy have engaged the attention of the Government. As pointed out in last year's *Survey*, governmental efforts are directed primarily to resettlement of people from the crowded into the sparsely populated areas. If western experience is to be taken as a guide, the prospect of an early reduction in the birth-rate is greater in the Philippines than in many other parts of the region, the educational level of the Philippine population being relatively high. Forty-nine per cent of the population aged ten and over were literate in 1939. Nevertheless, for several decades the likelihood of the population maintaining its recent high rate of increase will have to be taken into account in developmental plans.

Japan

The first enumeration of the population of Japan, on modern lines, was made in 1872. The next enumeration was made in 1920 and from then until 1940, censuses were taken every five years. No census was taken during World War II but several enumerations have been made since, the last one, a "ration card census", being on 1 August, 1947. The postwar census figures have not included Okinawa, which in 1940 had a population of about 600,000. The population totals for Japan (excluding Okinawa) as obtained in some of the censuses are shown below:

¹ *Supplement to Economic Survey of Indonesia, 1948*, prepared by the Department of Economic Affairs, Batavia.

Year	Population (in millions)	Annual rate of increase (per cent)
1920	55.4	
1925	59.2	1.3
1930	63.9	1.6
1935	68.7	1.5
1940	72.5	1.1
1945	72.5	0
1946	74.0	2.1
1947	78.6	6.2

Between 1920 and 1940 the population of Japan (excluding Okinawa) increased by 31 per cent. The annual rate of increase was 1.3 per cent in 1920-25, 1.6 per cent in 1925-30, 1.5 per cent in 1930-35 and 1.1 per cent in 1935-40. After 1940, Japan's population trend was markedly influenced by the war. As a consequence of war losses, the 1945 population was at the same level as in 1940. Since the war, the repatriation of Japanese nationals from other countries led to a sudden and sustained increase in population. The population of Japan (excluding Okinawa) was 78.6 million on 1 October 1947.

Fairly accurate vital statistics are also available since 1920. Birth-rates and death-rates have shown a decline. The average birth-rate was 34.6 per 1,000 in 1921-25, 33.5 in 1926-30 and 31.5 in 1931-35, and dropped to 27.0 in 1938-39. The average death-rate was 21.9 per 1,000 in 1921-25, 19.4 in 1925-30 and 17.9 in 1931-35. Between 1936 and 1940 the death-rate was roughly 17.3 per 1,000.

An analysis of factors leading to the decline in fertility has shown that part of the decline was due to an increase in the proportion of the population in urban areas, where fertility rates have been lower than in rural areas. The population living in cities of 5,000 and over increased from 32.2 per cent in 1920 to 50.1 per cent by 1940. There was also a slight reduction in the fertility rates of both urban and rural areas, attributable primarily to an increase in the age of marriage and a decline in the number of "informal marriages."¹

The trends of birth-rates and death-rates since 1940 are interesting when set against the background of Japan's war history. The birth-rate rose slightly after 1940 and kept an average of 30 per 1,000 until 1944. In 1945, the year of Japan's defeat, it dropped to 23.2, and in 1946 it was 25.3 per 1,000. In 1947 the birth-rate returned to the level of the early twenties, that is, 34.8, and the available data for 1948 have not shown any tendency toward a decline. The death-rate showed no increase during the war, except in 1945 when a death-rate of 29 per 1,000 was

¹ Irene B. Taeuber and Edwin G. Beal, *The Dynamics of Population in Japan*, 1944. Milbank Memorial Fund, pp. 22-32.

recorded. In 1946 the death-rate returned to a more normal level, that is, 17.6 per 1,000. The 1947 and 1948 death-rates were below 15 per 1,000, that is, the lowest ever recorded for Japan, and not very different from the death-rates recorded in Europe for 1930's. Japan's demographic situation is radically different from that of neighboring countries of the region where death-rates are still over 30 per 1,000.

Before 1940, the expanding industrial economy of Japan was able to absorb a rapid population increase in urban areas and to prevent the development of excess population density on the land.¹ Since 1940, however, the rate of natural increase has reached a high level. The repatriation of 6 million Japanese nationals from overseas, only partly offset by the return of 1 million persons of other nationalities from Japan to other countries, has accentuated this sudden increase in Japan's population size. This increase has been accompanied by far-reaching political, economic and social changes, which make any forecast of Japan's future demographic development extremely difficult.

Korea

The first population census of Korea was taken in 1925, showing a population of 19.5 million. The population enumerated increased to 21.0 million in 1930, to 22.9 million in 1935, and to 24.3 million in 1940. These figures show a rapid rate of increase, amounting to 1.5 per cent per annum during the period 1920-40. The high rate of increase has apparently occurred in spite of the fact that Koreans have migrated in large numbers into Manchuria and Japan. It is estimated that the Koreans in Manchuria, including the former South Manchurian Railway Zone, numbered 775,000 in 1935 and 1,162,000 in 1939.² The Korean residents in Japan increased from 419,000 in 1930 to 800,000 in 1939 and to about a million in 1942.³

Since the end of the war, the number of refugees has been greater than in any previous period in Korean history. Migration of Koreans into South Korea during the period October 1945 to October 1948 is recorded at 2.2 million, of whom 51 per cent are from Japan, 18 per cent from Manchuria and China, and nearly 30 per cent from North Korea. Since the division of Korea at the 38° Parallel in 1945, large groups of Koreans have entered the Southern Zone from the North. The total outward movement has been about 890,000, composed mainly of Japanese, many of whom have come through from the North.

¹ *Ibid.*, p. 14.

² Bruno Lasker, *Asia on the Move*. Henry Holt and Company, New York, 1945.

³ Karl J. Pelzer, *Population and Land Utilization. An Economic Survey of the Pacific Area*, Institute of Pacific Relations, 1941. p. 32.

Official estimates of the South Korean Interim Government Committee on Population and Census Statistics place the population of South Korea at 20.5 million by the end of December 1948.¹

POPULATION MOVEMENTS

The paucity and unreliability of demographic data are particularly acute in the field of movements of population between areas or countries. This difficulty is not peculiar to the countries of the region, but it is relatively greater there. Recourse to indirect methods to supplement inadequate statistics of the movements themselves is in most cases impossible because of the imperfections of general population data. Furthermore, the great variability which characterises the intensity of these movements does not allow conclusions regarding present movements to be drawn from averages or trends. It is proposed to give here a brief statement of some of the problems of population movements in the region in terms of demographic analysis.

From both the geographical and institutional points of view, three kinds of population movements should be distinguished: (a) interregional movements (i.e., to and from the region considered as a whole); (b) intraregional movements (i.e., between different countries of the region); and (c) internal movements (i.e., inside a given country).

As a result of the severe restrictions applying to interregional movements on the part of Governments outside the region, the magnitude of these movements is small. Restrictions exist also on intraregional migration, but they are less severe and not always so strictly enforced, so that the magnitude of this migration is greater.

During recent years, the volume of normal migration has been small in comparison with the numbers of persons transferred from their homes or displaced by operations of war. These movements will not be considered in detail. They should be distinguished from other migrations because the immediate causes are neither economic nor social, and because the movements are sudden, temporary and non-recurring. They raise special problems that are of great human significance and deep interest: relief of the acute sufferings of the men, women and children involved; their repatriation and their resettlement. The latter problem, however, has many aspects common to those raised by normal migration, and the demographic and economic consequences of the two types of movement are often of the same nature.

Table 1 on page 13 shows the great variations in density of population between the countries of the region and between different dis-

¹ *The Voice of Korea*, No. 126, 16 March, 1949.

tricts or provinces within those countries. To a certain extent those differences in density correspond to differences of natural resources and equipment. But the correspondence is anything but perfect, and is constantly being modified as a result of different rates of population growth, of changes in economic activities, and of different rates of investment. On the whole, the densities of population of countries of the region are in the medium or high range in the world-wide distribution of population densities. The standards of living are, however, low both relatively and absolutely. This alone creates a deep incentive to emigrate.

At present, Asian migrations are numerically among the most important in the world. It should, however, be borne in mind that the volume of migration (both interregional and intraregional) is quite small in relation to the size of the population in most of the countries concerned, and is much less important than the birth-rates and death-rates in its influence on population growth. There are, however, some cases of internal movements which are far more significant demographically, e.g., movements into Manchuria from other parts of China.

Little is known of the age distribution of the Asian migrants, except that they are mostly in the productive age groups. Like almost all migrant groups throughout the world, there is among them a predominance of men; this is because Asian workers are unable for financial or other reasons to transport their families when they migrate. The disproportion of the sexes among migrants is well shown, for example by the number of females per thousand males in the different racial groups of Malaya;¹ in 1931 this number was 970 in the case of Malayans, 513 in the case of Chinese and, in the case of Indians, 482, in spite of the rule laid down by the Indian Government in 1922 that four out of every five Indians emigrating to Malaya should be accompanied by their wives. Data on the sex and age of migrants would enable detailed analysis to be made of the demographic consequences of migrations on the countries of emigration and of immigration in Asia and the Far East.

The majority of migrants between countries of the region are agricultural workers. There are, however, other movements which are sociologically and economically important, although small in magnitude, such as the migration of some semi-skilled and a few skilled workers who may play a vital part in the receiving countries. The temporary inter-regional emigration of students, technicians and administrators going abroad to familiarize themselves with new fields of knowledge is for the same reason of great importance. So is the immigration of foreign specialists or administrators.

¹ *Malayan Year Book*, 1939, p. 35.

Even migrations that are too small to have a decisive influence on the rate of population growth can be an important factor in relieving acute difficulties, such as localized famines. In many cases they have also much significance for the cultural development of the countries of destination.

SUMMARY

Paucity of adequate statistics makes the demographic picture of the region incomplete and even vague at many points. Available evidence indicates that the individual countries are not all in the same demographic situation. China, with its large population, has a high birth-rate, a high death-rate and presumably a low rate of natural increase. India and Pakistan appear to have made progress in controlling mortality during the last two decades, with little or no change in their high fertility rate. Areas such as the Philippines, Indonesia and Ceylon show high rates of population increase which are believed to be due to a reduction in their death-rates, with little or no decline in the birth-rates. Japan's birth-rate had shown a definite decline before World War II but has again reached a high level; its low death-rate is comparable to that of some European countries.

Interregional movements of population have been of very small magnitude; intraregional migrations, large in absolute size, are in general small in relation to the populations concerned. The greatest movements, whether international or internal, during the latest years have not been migrations but transfers or displacement of populations within China and Korea, to and from Japan, between India and Pakistan. The pre-war currents of migration were of very varying importance: from the southern provinces of the Chinese Republic, migrants left for Siam, Malaya, Indonesia, Indochina, Ceylon and Burma and from the northern provinces of China Proper for Manchuria. Indians migrated to Malaya, Ceylon, Burma, Mauritius and the Union of South Africa. Japanese migrated to Korea, Sakhalin, Manchuria, Formosa and the United States.

In spite of such differences, there are common features in the demographic trends of the countries of the region, with the possible exception of Japan. One is that in the next few decades, unless fertility declines, an era of peaceful progress would lead to a rapid increase in population. In most countries of the region, modern influences have been responsible for measures which tend to cut down mortality, such as the prevention of social disorder, introduction of better facilities for transportation, improvement of agricultural and manufacturing techniques, and the control of epidemic diseases. Such changes have ordinarily had little effect on fertility, which is determined by motives

deep-seated in the social and cultural fabric. Secondly, predominantly agricultural populations have difficulty in adapting themselves immediately to rapid changes in economic patterns and new locations of activities. Thus mobility, as an element of the population problem, together with the size, density and rate of growth, must be taken into account when considering developmental plans in most countries of the region.

With reduced mortality, continuation of the high fertility rates prevailing in these areas will produce a rapid increase in population. European countries experienced similar increases in population after the industrial revolution, when science and technology were used to raise the standards of living. The discovery of the New World and the opportunities which it gave for large-scale emigration, the extension of European trade and commerce to countries in the East, and the establishment of colonies, helped to counteract the effect which the population expansion might otherwise have had on the health and economic welfare of the population. At a later stage, however, birth-rates fell in European countries. A point which has to be decided in any appraisal of the future populations of the region is whether or not birth-rates will decline in the countries concerned even during the first stage of their economic development.

CHAPTER III

Salient Changes Since the War

In Asia and the Far East, as in other regions, significant changes of a lasting character have taken place in comparison with the position before World War II. Both postwar territorial changes and the decline of colonialism have exerted a profound influence on the economic structure of the region. The rise of economic planning and control, including the extension of state enterprise in production, trade and banking, the introduction of managed currency and the attempt to control prices as well as foreign trade and exchange, are the manifestations of the wartime and postwar tendency towards increasing participation by the State in economic activities. Wartime and postwar industrialisation has brought about changes in the region's pattern of production and trade. Agrarian reforms have come to the forefront in many countries, especially China, Burma, India, Korea and Japan. Asian labour is increasingly asserting its right to organize in face of the rising cost of living. Inflation in many countries has brought about changes in the distribution of wealth and income. Finally, there have been significant changes in international economic relations, in trade and in balance of payments. These basic changes in the AFE region will be considered in the present chapter.

DECLINE OF COLONIALISM

The history of colonial rule in Asia and the Far East varies in duration from decades to centuries for the various metropolitan Powers.

Under the slogan of "Asia for the Asian", Japan set out during World War II to expand its colonial domain. The procedure adopted differed from that followed by other metropolitan Powers in earlier days, but the objective remained the same. Four independent regimes were established in Burma (1 August, 1943), the Philippines (14 October, 1943), Indochina (9 March, 1945), and Indonesia (17 August, 1945—immediately after Japanese surrender but before Allied re-occupation). Military defeat, however, put an end to Japan's thinly disguised attempt to unify Asia under its domination.

National independence has increasingly become the common aspiration of countries under metropolitan rule. Even before the war ended, the Allied Powers had pledged support to the Asian desire for independence and freedom. Independence was pledged by the United States, Great Britain, and China to Korea in the Cairo Declaration (1 December, 1943), while Manchuria and Taiwan were to be restored to China. The Philippines became independent on 4 July, 1946, and Burma on 4 January, 1948. India and Pakistan, on 15 August, 1947 and Ceylon, on 4 February, 1948, became self-governing Dominions within the British Commonwealth of Nations. The Federation of Malaya, with a constitution of its own, came into being on 1 February, 1948, in place of the Malayan Union which had been established on 1 April, 1946. In Indonesia and Indochina the differences between the peoples and the metropolitan Powers remain as yet unsettled.

With the decline of colonialism the region is entering into a new age of independent economic development. The transition from colonial to national economy has proceeded with varying speed and success in different countries. But certain trends are visible. First, there is a definite tendency towards national economic independence, characterized by the desire for balanced economic development, and by the imposition of controls over trade, exchange and investment with a view to fostering such development. Second, the Governments in the newly independent countries have embarked, or are planning to embark, upon programmes for industrialisation, initiated and in many cases financially supported by the State. As part of these programmes, state enterprises in production, trade and banking have been set up in several countries.

Internal political and economic instability has accompanied in a number of cases these political changes. Burma, the Federation of Malaya, and the Philippines have all had their share of civil disturbance. India and Pakistan had to face extensive communal riots immediately after partition. Inflation, shortages, wartime destruction and deterioration of capital equipment—all these have contributed to continued economic instability in many countries. Shortage of capital equipment and technical personnel is another handicap to the newly independent countries. Repatriation of metropolitan staff and replacement by local staff, for example, have resulted in an acute shortage of competent technical personnel in civil service.

TERRITORIAL CHANGES

Postwar territorial changes have reduced the size of empires and have signalled the emergence of several newly independent nations in

Asia and the Far East. These changes cannot fail to exert an important influence on the economic development of countries of the region.

Among these changes the most important is the disintegration of the Japanese Empire. With Korea independent, Manchuria and Taiwan restored to China, southern Sakhalin and the Kurile Islands turned over to Soviet Russia, and the Ryukyu Islands under American occupation, what is left of Japan now embraces only the four islands in Japan Proper, namely, Honshu, Hokkaido, Kyushu and Shikoku. Consequently, Japan today has less than one-fifth of its prewar area, and about one-half of its prewar population. This change may have profound effects on the economic structure of Japan and its relations with other countries.

Japan's industrial production at present (December, 1948) is only 32 per cent of the peak level attained in 1941, or 64 per cent of the level in 1930-34. Japan's future industry and trade is likely to differ radically from prewar. Two-thirds of its large cotton textile capacity was destroyed during the war and with the rise of the cotton textile industry in other countries of Asia, it is unlikely that Japan will regain its dominance in this industry. Similarly, the industrial development of the light consumer goods industries in other countries of Asia may well reduce the dependence of these countries on Japan for these types of goods. On the other hand, the desire for industrial development on the part of all countries of Asia and of the Far East might result in a heavy demand for Japanese machine tools and industrial machinery and equipment. To survive economically, Japan's exports must be large in order to pay for the raw materials and food which previously came in large part from the yen *bloc* of the Japanese Empire.

Since the end of the war, Japan's foreign trade has been chiefly on a "Government to Government" basis. Food and raw materials were imported into Japan by the Supreme Commander for the Allied Powers (SCAP), chiefly financed by United States government funds, but in some cases as barter transactions. Rice from Korea and Taiwan, for instance, was replaced by wheat from the United States. Private trade was resumed in 1948 but most imports are still financed by United States funds.

Another territorial change is the rise of independent Korea, which at the end of the war was divided into two zones, South Korea under American occupation and North Korea under Soviet occupation, with the 38th Parallel as the dividing line. The subsequent establishment in late 1948 of Korean government in the two zones has not seemed to alter the fundamental situation. The 38th Parallel divides the country into

a northern zone with three-fifths of the area and less than one-third of the population, and a southern zone with only two-fifths of the area but over two-thirds of the population. Through the differences in the policies pursued at first by the occupation authorities and now by the North and South Korean Governments, the economy of the two zones has undergone fundamental changes. During 1946-47, a large number of refugees from North Korea, estimated at 350,000, moved across the frontier to South Korea, in search of food in rice producing districts and for other reasons. The economy of the country has been disrupted as a consequence of the new political division. Rail traffic was halted at the boundary. The south was deprived of northern ores, chemicals, lumber, fabricated metals and ultimately of hydroelectric power. The north, in turn, lost southern rice, textiles and other consumer goods.

A third territorial change is the restitution to China of Manchuria and Taiwan. China, through such restitution, would have better prospects of industrial development were postwar conditions less affected by civil disturbances and other factors. In Manchuria the industrial structure which Japan had built up since 1931 was dismantled or damaged soon after the conclusion of war. Taiwan was also developed by the Japanese and except for some damage from Allied bombing, remained economically intact; since restitution it has been used by the Chinese Government as an important industrial base.

A further major change is the partition of the Indian subcontinent into the two countries of India and Pakistan. This partition entailed considerable dislocation, of which the most spectacular was the mass transfer of population across the frontiers of the two countries during the latter part of 1947.

Economically, the two new countries, although differing in resources and development, were highly complementary to each other. Both were still agricultural, but India had developed industries which, like jute and cotton, drew heavily on Pakistan for raw materials, as well as for foodstuffs for the working population. In return, Pakistan received manufactured articles from India.

Pakistan was in general also behind India in mineral production. During 1948, whereas India's coal production reached 30.3 million tons, Pakistan's was only 279,000 tons. Pakistan also produced petroleum and chromite; its output of petroleum was only one-third that of India, but for chromite its output was four times that of India. Unlike India, however, Pakistan produced no iron, copper, manganese or mica.

The complementary economic character of the two countries was seriously affected by the partition through the creation of trade barriers

and the break-up of the whole system of communications. The transfer of great numbers of population from Western Punjab, North-western Frontier Province and Sind resulted in temporary suspension of many of the industrial, banking, and commercial establishments in Western Pakistan, and many of the farm lands formerly cultivated by the Pakistan peasants in East Punjab and Delhi had to be resettled by Indians. Meanwhile, India had to spend a large part of its exchange resources, accumulated during the war, in the purchase of food.

Since partition, both countries have attempted to find a way out of the economic disruption caused by the partition. While India plans to increase its agricultural production, especially food, through erection of large-scale irrigation schemes, greater fertilizer production, and other means, Pakistan is trying to meet a part of its needs for manufactured articles through encouragement of industrial development.

Among less far-reaching territorial changes is the establishment of the Federation of Malaya. On 10 October, 1945, the setting-up was announced of a constitutional Union of Malaya, consisting of the nine states in the Malay Peninsula and of the two British settlements of Penang and Malacca, while the settlement of Singapore was to be constituted as a separate colony. On the termination of the British Military Administration at the end of March 1946, the Malayan Union and the Crown Colony of Singapore were established. On 1 February, 1948 the Malayan Union was replaced by the Federation of Malaya, with similar territorial scope but with a constitution providing for greater autonomy than the earlier one for the Union.

Another minor territorial change since the end of the war was the restitution by Siam to Malaya, Indochina and Burma of the territories occupied during the war. The peace treaty between Siam on the one hand, and Great Britain and India on the other, on 1 January, 1946, provided for the return to Britain of the four Malay and two Shan states ceded to Siam by Japan in July 1945. France, too, concluded a treaty with Siam on 17 November, 1946 by which Siam restored the Indochinese territories ceded by the Vichy Government in 1941.

ECONOMIC PLANNING AND CONTROL

Economic planning and control have been increasingly evident in Asia and the Far East. Even before the Soviet First Five-Year Plan, China in 1921 had a plan prepared by Sun Yat-Sen, founder of the Chinese Republic, who proposed in his *International Development of China* "that the vast resources of China be developed internationally under a socialistic scheme" as a means of readjustment of war industries in countries affected by the First World War. The Soviet experiment

drew world-wide attention to the possibilities of economic planning and control, while the great depression of the 1930's demonstrated the need for planning in other economies. Japan used it to hasten the materialization of its designs for continental expansion on the Asian mainland, in Manchuria in 1931 and in Occupied China in 1937; while China, in self-defence, started economic planning and control through the establishment of several government bodies, especially the National Resources Commission, which since 1935 has become the major state enterprise in the development of electric power, mining and machine making.

India's National Planning Committee, appointed as the result of a resolution of the Conference of Ministers of Industries in the several provinces held at Delhi in October 1938, began its work in 1939, but ceased to function early in the war. The Government of India and the provincial governments made arrangements for the preparation of postwar plans, and studies were made and financial proposals examined later in the year. In October 1946, the Advisory Planning Board of the Government of India was appointed to make a comprehensive survey of the field of planning, which had grown rapidly during and after the war, at the centre, in the provinces, and for major industries. The Board, in a report issued three months later, recommended the establishment of a Planning Commission under the Central Government which should constitute a single, compact, authoritative organization responsible directly to the Cabinet as a whole and which should devote its attention continuously to the whole field of development in so far as the Central Government was concerned with it.

Burma, Ceylon, North Borneo and the Philippines have, since the war, drawn up programmes for economic development. In 1948 plans were prepared by France on behalf of Indochina. In countries under Allied occupation, Japan and Korea, plans were also prepared for post-war rehabilitation and reconstruction.

Probably the earliest and most extensive trend toward economic control has been the rise of state enterprises in the field of public utilities and transport. In many Asian countries, railway transport and power generation were the first to come under state ownership and control, followed in recent years by road transport, shipping, commercial aviation and irrigation. Before World War II, few industries were owned and operated by the State, but during and after the war, the position had changed. Several Governments, especially China and India, developed basic industries like mining, power and machinery, with the purpose of providing a minimum basis for industrialisation. In territories regained

from Japan, notably Occupied China, industries operated in wartime by enemy or puppet administrations were wholly taken over by the State.

The newly independent countries, in particular the Philippines, Burma and Ceylon, took over state-owned industries formerly under colonial administration. Meanwhile, new state industries have been established for the promotion of economic development along independent national lines. In Burma, there has been a strong tendency towards nationalization of the few existing industries.

Apart from public utilities, transport and production, other fields, including banking, currency, exchange, and trade, have increasingly come under state control. With the growth of budgetary deficits to meet the needs of war and postwar financing, and the consequent inflation, there has been a tendency to adopt managed currency systems, or in some cases, to modify the automatic exchange standard. Parallel to the adoption of managed currency systems was the establishment of central banks. In India, China and also Japan, central banks were established before the war; in Siam during the war; and in Pakistan, Burma and the Philippines, after the war. In Ceylon and Malaya, where central banks have not yet been established, a currency board and a currency commission perform respectively the function of controlling note issues. It is significant that all these central banks are state-owned and state-controlled institutions. It remains to be seen how far such newly created monetary machinery will succeed in regulating the supply of and demand for credit and in guiding capital into industry. Besides central banks, state-owned and controlled financial institutions have been set up in some countries for the purpose of providing capital funds for industry.

CHANGES IN PRODUCTION PATTERNS

The trend towards industrialisation in the region dates from before the war, but its tempo was increased under the exigencies of war. In its broad sense, industrialisation may mean the application of modern technology and methods of organization to all branches of economic activities, but so far as the AFE region is concerned, industry and transport have proceeded faster than agriculture in the application of modern technology and methods of organization except in such countries as Malaya, Indonesia and Ceylon where the modern plantation system has been widely introduced. Among manufacturing industries, production by modern methods has developed more rapidly and extensively in the manufacture of wheat flour, sugar, cigarettes, matches, paper, etc., than in the basic industries, such as fuel and power, iron and steel, engineering and machine-making. Industrialisation of a vast region like this is bound to affect not only its own economies but also its economic rela-

tion with others, although the effects will become apparent only after an interval.

The war saw not only an increase in the tempo of industrialisation but also a shift in the potential weight of the industrial power of the countries of the region. India now leads the AFE countries in the production of cotton textiles, and is intensively developing heavy industries. China's industrial production has fallen off drastically during the three years of civil war, but its industrial potentialities have been greatly increased with the restitution of Manchuria and Taiwan. As soon as internal peace is restored, China should be able to expand industrial production at a rapid rate. Japan, thanks to its large manufacturing capacity and abundant supply of technical personnel, may continue for some time to enjoy substantial advantages in industrial production over India and China, but its reduced resources in food, minerals and raw materials point to a weaker position both absolutely and relatively to China and India.

Besides industrialisation, there has been a demand for diversification in production in countries like India and Ceylon where large quantities of foodstuffs have to be imported, as well as in countries like Malaya and Indonesia whose economy is built on a few staple products for export, such as tin and rubber. The movement for diversification in production is, however, as yet at an early stage, and no substantial result can yet be shown.

MOVEMENTS TOWARDS ECONOMIC EQUALITY

Of the various concrete measures which point to a greater measure of economic equality in the region, the most notable is perhaps the introduction of agrarian reforms in China, India, Burma, Japan and Korea.

Agrarian Reform

In many countries of Asia and the Far East, demand for agrarian reform has grown in the last few decades with the increasing commercialization of agricultural production and concentration of land ownership. Landlordism, often of an absentee type, has given rise to a string of middlemen whose exploitation of the tenant cultivators brings out even more glaringly the inherent weakness of an antiquated system of land tenure. The rise of communism in some parts of the region has been accompanied by measures for land reform. In China, indeed, communism has for the last two decades been closely associated with the movement for land reform. Broadly speaking, in those parts of China which are under communist control, the movement has gone through four stages. During the first stage from 1927 to 1937 (the year of

Japanese invasion of China), outright confiscation of land belonging to large owners was accompanied by nullification of contracts of rural indebtedness. The land so confiscated was redistributed to agricultural labourers, "poor" or "middle" peasants, and family members of the Red Army, in accordance with the size of family and labour power available. During the second stage (1937-45), outright confiscation was replaced by a more moderate programme of rent and interest-reduction, in order to enlist the support of the land-owning class in the common cause of increasing agricultural production for the prosecution of war. During the third stage, from the Japanese surrender onward (1945-47), the policy of outright confiscation was restored in the case of lands owned by enemy nationals, puppet officials and local gentry charged with wartime acts of oppression of the people. Rent and interest-reduction was, during the first year of victory, continued in respect of landowners, with the proviso, however, that wartime payments of excess rents or surcharges be refunded to the tenants, and that after such refunding, tenants be given priority in purchasing land offered for sale by owners.

The fourth stage commenced when on 10 October, 1947, a new Land Law, first passed at the National Land Conference on 13 September, 1947, was proclaimed by the communist authorities. Landlordism was declared to have come to an end. Redistribution of land, except in areas where land had been equitably distributed and where no demand was made for redistribution, was to be carried out equally among all villagers, but with due regard to the quality of land, on a family or household basis.¹

In North Korea, all land owned by the Japanese Government, companies or individuals, and by certain categories of Koreans, was confiscated and freely redistributed to farmers for permanent ownership, i.e., the land could not thereafter be sold, bought, rented for tenancy, or mortgaged. According to a Soviet communication to the United States Government dated 19 April, 1947, about 725,000 landless peasant farmers and those having little land received more than one million hectares of free land which formerly belonged to Japanese colonists and their accomplices in Korea.

In South Korea, the Japanese-dominated Oriental Development Company and the land held by individual Japanese were vested in the

¹ Shen Tse-yuan (editor): *China's Land Problems and Land Reform* (in Chinese), Hsin-Chung Publishing Co., Hong Kong, 1948. The new Land Law is reprinted here on pp. 73-75. See also Chen, Han-seng, "Agrarian reform in China" in *Far Eastern Survey*, Feb. 25, 1948; Lee, Frank C. "Land Redistribution in Communist China", in *Pacific Affairs*, March, 1948. pp. 20-32.

New Korea Company, set up by the American Military Government on 21 February, 1946.¹ The New Korea Company held about one-eighth of the cultivated land of South Korea, including one-sixth of the rice-fields. It took all the preparatory steps for selling the land to tenants so that when it was dissolved on 22 March, 1948, the National Land Administration which took over its properties and personnel was able to put the land sale programme into effect without delay. The Korean tenants on the land offered for sale were given the first opportunity to buy, paying in farm produce over a period of years. As of 30 June, 1948, out of 588,000 farms offered for sale, a total of about 490,000 farms were sold by the National Land Administration.²

In Burma, a more moderate scheme of reform than that of communist controlled China or North Korea has recently been adopted. The Land Nationalization Act, 1948, which shall "come into force on such date as the President may by notification appoint", transfers the right of possession of all agricultural land not exempted from "resumption" to the State. Agricultural land, including rice or sugar cane land, *Ya* land and *Kaing* land, which is in continuous possession of an agriculturalist family from 4 January, 1948, up to the extent respectively of 50, 25 or 10 acres, is exempted from "resumption" by the State. For land whose possession is resumed by the State, compensation not exceeding twelve times the land revenue assessable on the land in the year 1947-48, plus compensation for "constructional improvements", is payable to the owner. The land so resumed shall be distributed to all agriculturalist families other than those which have been granted exemption.³ A beginning in the enforcement of the law has been made since 1 January, 1949.

In India considerable progress in agrarian legislation has been made by the different provincial Governments. The Government of Bombay has amended the Bombay Tenancy Act, 1939, by the Bombay Tenancy (Amendment) Act, 1946, to give more protection and privileges to the tenants. It has also passed legislation to prevent the fragmentation of agricultural holdings and to provide for their consolidation. In Madras legislation abolishing the Zamindari system by buying out Zamindari rights was passed in March 1948. In other provinces, e.g., United Province, West Bengal, Orissa and Assam steps are being taken to abolish the Zamindari system. Under this system lands had been permanently

¹ C. Clyde Mitchell, *Final Report and History of the New Korea Company*, 30 April, 1948.

² United States Army Forces in Korea, *South Korea Interim Government Activities*, June 1948.

³ *The Land Nationalization Act, 1948*, Superintendent, Government Printing and Stationery, Rangoon, 1948. See also "The Burma Land Nationalization Bill", in *Eastern Economist*, Vol. XI, No. 20, 12 Nov., 1948, pp. 830-831.

held by a class of people styled *Zamindars* who were responsible for collecting rents from the cultivators and paying the stipulated revenue to the Government. It is expected that the abolition of the *Zamindari* system will lead to an increase in production and an improvement in the standard of life of the cultivating classes. In Central Province and Berar, Bills to amend the Berar Land Revenue Code, 1928, to facilitate the conferring of protected status on the tenants, to discourage sub-letting of land and to provide security of tenure for lessees, are being introduced in the Provincial Legislature. The Legislative Assembly of Bihar has passed the Bihar State Acquisition of *Zamindari* Bill to do away with the *Zamindari* system in the province.¹

In Japan, the land reform programme enacted in October 1946 and brought into operation on 31 March, 1947 provides for the transfer of land-ownership to farmers who actually till the soil and for improvement in farm tenancy practices for those who continue to act as tenants. The lands to be transferred include those owned by absentee landlords, owner-cultivated lands in excess of those that can be reasonably cultivated by the farmer and his immediate family, corporation-owned lands that do not relate directly to the principal objective of that corporation, and lands capable of reclamation for agricultural use. First priority in the purchase of these lands goes to tenants in occupation on 23 November, 1945 and second priority to other tenant operators. Payment may be spread over a period of 24 years with interest at 3.2 per cent. For those who remain as tenants the law provides for a written farm lease with all principal elements clearly stated, cash payment of rent, and a rent ceiling of 25 per cent of the production from lowland paddy and 15 per cent of that from upland fields.² The reform programme was scheduled for completion by the end of 1948. By 31 July, 1948 the total amount of land sold under this programme reached about 1.3 million hectares or about 60 per cent of the estimated target.³

It will be seen that the agrarian reforms have been mainly directed to the abolition of landlordism and the redistribution of land. The immediate effect of such reforms will be that an increased share of the national product will go to the peasants. The improved standard of living, coupled with a higher social and political status, may give the peasants a new incentive for production. But in the long-run, in the face of the high population pressure on land in the region, it is doubtful if

¹ *Annual Progress and Programme Report to the FAO* (Government of India, Ministry of Agriculture), pp. 24-25.

² *National Progress in Food and Agriculture Problems, 1948*, FAO, Washington, September, 1948, p. 143.

³ SCAP, *Summation of Non-Military Activities in Japan*, August, 1948.

the increased production resulting from such institutional changes will be large enough to assure the peasant class of a reasonably adequate standard of living. While agrarian reforms are essential, much has yet to be done, in addition to the development of industries, to absorb surplus agricultural population, in encouraging the peasants to organize themselves in such a way as to enable them to apply modern methods of large-scale farming and utilise modern scientific knowledge in improving existing agricultural practices.

Furthermore, the improved standard of living of the peasants will be reflected in increased consumption of essential commodities such as food and clothing, while the elimination of the rentier class will reduce total demand for certain luxuries and services. The types of demand in the national market will, therefore, be altered to a considerable extent. This may, in turn, bring about a series of adjustments in production, and necessitate a shift in the factors of production from one industry to another.

Labour Organization

Labour's right to collective bargaining is being increasingly recognized in Asian countries, although its full exercise requires considerable time, in view of the many hindrances that still prevail, e.g., illiteracy; racial, religious and cultural complexity; political division; economic insecurity arising from population pressure, and consequent unemployment and under-employment.

As pointed out in the 1947 *Survey*, there has been a resurgence of trade unionism since the war. Expansion of communist influence in North and Central China during the latter part of 1948 will undoubtedly have an important influence in shaping the future trend of the labour movement in Asian countries, especially among the Chinese immigrant labour in South-east Asia.

It is not easy to appraise the extent to which the rise of organized labour has contributed to the improved conditions of work. In those countries, such as China, India and Japan, where labour movements have been stronger or have received an impetus from political struggles, real wages showed some improvement during recent years despite unfavourable economic conditions, although in the case of Japan real wages are less than prewar because of the great shortage in supplies of all kinds. In other countries, the living conditions of workers seem to have deteriorated as a result of the rise of prices especially for food and textiles, and the congestion in living quarters.¹

¹ For details, see chapter VII on Labour.

CONSEQUENCES OF INFLATION

The widespread inflation which has taken place in the region is described in chapter XI. It is well known that inflation affects the distribution of wealth and income in favour of entrepreneurs, including industrialists, farmers, merchants, and others enjoying variable income, at the expense of fixed-income receiving classes. Wartime and postwar inflation in countries of the region, which are largely agricultural in character, tends to favour the great mass of rural population through the cancellation, in most cases, of rural indebtedness, and through increasing income from disposal of surplus cash crops. This, however, does not apply wholly to countries like China where, since the early years of war, payment of land tax in kind has been enforced by the Government, or to areas where share-cropping has continued to be the prevalent form of land tenure. Again, in so far as shortage of incentive goods exists under inflationary conditions, agriculturalists in several countries have reverted from cash to subsistence farming, and have, by reviving barter economy, attempted to free themselves from the effects of adverse terms of trade between agricultural crops and manufactured articles.

The fixed income class, especially salaried workers, on the other hand, have suffered a decline in their real income under inflationary conditions. Labour disputes and strikes during wartime were forbidden to workers in essential industries, but with the relaxation of control since the war they have tended to increase. Through their ability to bargain collectively, industrial workers have been reasonably successful in obtaining wage increases, but it is the salaried employees in civil service, being in most cases not organized and not enjoying the right of collective bargaining, who have suffered the greatest decline in their real income. Despite the rapid progress of inflation in China, the pay scale of public servants in government or educational service lagged behind at an extremely low level.¹ In Burma and Siam, the same situation prevailed, although to a smaller extent than in China.

INTERNATIONAL ECONOMIC RELATIONS

The integration of the economies of Korea, Taiwan and Manchuria into the Japanese economy, whereby Japan obtained food, raw materials, iron-ore, coal, etc., and supplied manufactured goods, has been cut asunder. The position of Japan itself in the economy of the region as the source of supply of several kinds of manufactured goods remains an outstanding question.

¹ *A Survey of Reconstruction Problems and Needs: Country Study on China*, ECAFE document E/CN.11/39, Annex F, 29 November, 1947.

Postwar developments have cemented rather than weakened the close economic and commercial ties between India and Ceylon, as well as between India and Burma. The partition between India and Pakistan has created new trade barriers across the frontiers, but close economic relations between the two countries are being continued.

The region's place in the global system of trade and finance is undergoing reorientation. Before the war, countries of the region were debtors, mainly to continental Europe. Britain was the creditor of India, Burma and Malaya; France of Indochina; and the Netherlands of Indonesia. Hence, most countries required an export surplus to service public and private debts and pay for invisible services. The obligation was met to an important degree by large-scale exports of rubber, silk and mineral products from these countries to the United States. On the other hand, European countries were important sources of supply of manufactured goods, including capital goods, to countries of the region. The triangular situation applied less to the Philippines-United States and Indochina-France relations than in the case of other metropolitan Powers and dependent areas. The settlement of this multilateral trade involved the transfer of dollars by the dependencies to the metropolitan countries.

The war and its aftermath have introduced important changes in the system. The impaired economic capacity of continental Europe has resulted in the temporary inability of continental countries to provide the countries of the region with capital goods and other articles either on the prewar scale or proportionate to postwar needs. The effect of this is making its appearance in the desire of the region to have increased trade with the United States as a means of directly financing reconstruction needs from America. The emergence of India as a creditor country in respect of the United Kingdom is also a significant development which contributes to the disturbance of the prewar triangular arrangements. It is also possible that creditor-debtor relationships may develop between the countries of the region. India's loan to Siam and reported loan to Burma may be cited as examples.

An important factor in changing the traditional multilateral pattern of trade is the uncertainty as to the future of two export commodities of the region—rubber and silk. Rubber, the mainstay of Malaya and Indonesia, and to a lesser extent of Ceylon, is the principal source of dollar earnings for the region, United States consumption alone exceeding 50 per cent of the world's consumption. Its market, however, has been threatened by synthetic rubber. Silk, which used to be one of the principal sources of dollars for Japan, and to a lesser extent China, is being replaced to a large extent by other fibres.

All these changes have affected the regional pattern of balance of payments. As was seen above, the general prewar pattern was one of visible trade surpluses offset by invisible payments in the form of interest, etc., to countries outside the region. Exceptions to this pattern were China and Japan, both of which had visible trade deficits, partly offset in the case of China by large remittances from overseas Chinese and more than offset in the case of Japan by net earnings on services. By contrast, the almost universal current pattern for the region is one of visible trade deficits, increased by invisible items, with the volume of trade at a minimum level. A notable exception is Pakistan which shows a surplus in its balance of payments and is also not seriously short of dollars. Ceylon and Siam are also relatively well placed in this respect. The main reasons for the changed position of the region may be summed up as follows: reduction in output and exports of foods, raw materials and other products as a result of war and inflation, reduction in invisible exports (e.g., remittances to China from Chinese abroad), coupled with flight of capital, and the changed position of Japan.¹

¹ *Report on Financial Arrangements to facilitate the Trade of the Countries of the ECAFE region*, ECAFE, October, 1948 (Document E/CN.11/128/Add.1) pp. 9-10.

PART TWO
PRODUCTION

CHAPTER IV

Food and Agriculture

This chapter is divided into three sections: (1) food production, including rice and other cereals, livestock, poultry and fishery products, (2) production of principal industrial and commercial crops such as raw cotton, natural rubber, tea and tobacco, and (3) supply of draft animals and agricultural requisites.

FOOD PRODUCTION

Rice and Other Cereals

Except in Ceylon and Malaya food crops take up more than half of the total acreage in countries of the region. Among food crops, rice, wheat and rye, and coarse grains are the major crops. As shown in table 2, 1948 production of these major food crops represented an increase of 3 per cent over 1947 but was still 4 per cent below the level of 1934-38.

TABLE 2
Production of Major Food Crops
(thousand tons)

	1934-38	1947	1948
Rice (Paddy)	140,540	131,926	134,386
Wheat and rye	34,516	33,540	36,400
Coarse grains	63,600	57,300	58,700
TOTAL.....	238,656	222,766	229,486

Production of other food crops, such as roots and tubers, pulses, vegetables and fruits, was higher in 1948 than in 1947. Statistics for these are, however, incomplete or not available.

Rice: The total production of paddy rice in the AFE region in 1948/49 was 134 million tons, about 1.8 per cent higher than in 1947/48 but 4.4 per cent lower than in 1934-38.

Only in Malaya, Pakistan, the Philippines, Siam, South Korea and Japan did the production of paddy rice in 1948/49 exceed the prewar average of 1934-38, while in other countries of the region it was still

TABLE 3
Production of Paddy Rice
(thousand tons)

Country	1934-38 average	1947/48	1948/49
Burma	6,971	5,429	5,800 ^a
Borneo, North	170	119 ^a	120 ^a
Ceylon	300	300 ^a	300 ^a
China			
22 provinces	50,064 ^a	46,507	46,524
Manchuria	411 ^a	459	460 ^a
Taiwan	1,642 ^a	1,205	1,200 ^a
India	29,204 ^b	28,590	29,000 ^a
Indochina	6,498	4,797 ^a	5,103 ^a
Indonesia	9,845	8,592	9,218
Japan	11,501	11,194	11,764
Korea, South	2,520 ^a	2,570	2,554
Malayan Federation	513	553	560 ^a
Pakistan	11,168 ^b	11,819	11,621
Philippines	2,179	2,335	2,401
Siam	4,357	5,174	5,400
TOTAL ^c	140,540	131,926	134,386

Source: FAO, *Food and Agricultural Statistics*, Vol. II, No. 3, March, 1949; *Rice Bulletin*, February, 1949, p. 60. Most of the 1948/49 estimates are provisional.

^a Average 1931-1937.

^b Average 1936/37 - 1938/39.

^c Average 1930, 1934 and 1936.

^a Estimates by FAO staff on the basis of partial data available.

^a Unofficial estimates.

^c Including others.

below the prewar level, notably in Burma, China, Indochina and Indonesia. Burma and Indochina used to be among the chief suppliers for other countries in the region, and the slow recovery in their production has undoubtedly had a profound effect on the regional supply. In China, where the total amount of rice consumed is greatest because of the size of the population, a small percentage decrease in production gives rise to a considerable deficit and to the need for large imports.

Before the war, the AFE region had a surplus in rice available for countries outside the region. From 1934 to 1938, the average annual net export of rice (milled) from the countries in the region was 1,692,000 tons. The war has radically changed this picture. In 1947 and 1948, the total net import of rice was respectively 305,000 and 252,000 tons.

That the AFE region has changed from a net exporter to a net importer in rice is due not so much to the increased demand for rice as to its decreased availability. In 1948, as compared with prewar, both export and import of rice declined, but export declined to a far greater extent.

Other cereals: As reported by FAO, and shown in table 4, wheat and rye were the only crops whose production in 1948 exceeded the 1947 and prewar levels of production.

TABLE 4
Production of Wheat and Rye
(thousand tons)

Country	1934-38 average	1947	1948
Burma	7	4	..
China ^a	22,640 ^b	23,647	25,582
India	7,140 ^c	4,871	5,432
Japan	1,287	767	941
Korea, South	103 ^d	88	102
Pakistan	3,183	3,200	3,317
TOTAL^e.....	34,516	33,540	36,400

Source: FAO, *Food and Agricultural Statistics*, Vol. II, No. 3, March, 1949.

^a 22 provinces and Manchuria.

^b 1931-37 average.

^c 1936/37 - 1938/39 average.

^d Three year (1930, 1934, 1936) average.

^e Including others.

The 1948 production of wheat and rye was 8.5 per cent higher than in 1947 and 5.5 per cent higher than prewar. This is the first time since the war that production by the region as a whole of an important crop like wheat has exceeded the prewar level, but in fact this regional increase is the result of increased production in China and Pakistan. Even in China, because of increasing internal strife in the second half of the year, it is questionable whether the actual yield of wheat in 1948 measured up to the amount as reported in the earlier crop forecast.

Table 5 shows production of coarse grain, i.e., millet, maize, barley, oats, and kaoliang.

The regional production of coarse grains in 1948 was estimated at 2.4 per cent higher than in 1947 but 9 per cent lower than prewar. All countries of the region except Pakistan shared this uniform tendency for 1948 production of coarse grains to be slightly above the 1947 level, but still below prewar. In the Philippines and Siam, production showed a continuous increase over prewar both in 1947 and in 1948.

The net import of wheat and rye and coarse grains by the AFE region, compared with prewar, rose steeply up to 1946/47, i.e., from 352,000 tons prewar (1934-38) to 4,784,000 in 1946/47, but declined slightly to 4,321,000 in 1947/48. Because of the decrease in the availability of rice in some of the exporting countries of the region, other

TABLE 5
Production of Coarse Grains
(thousand tons)

Country	1934-38 average	1947	1948
Burma ^a	39	29	..
China (22 provinces) ^b	30,494 ^b	27,662	28,454
India	18,160 ^c	16,900	16,900
Pakistan		1,500	1,060
Indochina ^a	538	54 ^a	60 ^a
Indonesia ^a	1,978	1,313	1,937
Japan	1,963 ^d	1,374	1,646
Korea, South	1,046 ^d	685	853
Philippines ^e	427	466	489
Siam	5	9	10
TOTAL^f	63,600	57,300	58,700

Source: Except stated otherwise, data are based on FAO, *Food and Agricultural Conditions in Asia and the Far East, 1948*, p. 4.

^a Based on ECAFE estimates.

^b 1931-37 average.

^c 1936/37 - 1938/39 average.

^d Three-year average (1930, 1934, 1936).

^e Maize only.

^f Including others.

countries in the region had to rely more and more on importing wheat, flour and other food grains from countries outside the region.

Livestock and Poultry Products

Among livestock products, pork, beef and mutton are major items consumed in the region. As cattle is kept more for working purposes than for food; only hogs, goats and sheep are dealt with here. Table 6 gives the number of hogs, goats and sheep in 1948 as compared with 1947 and prewar, for selected AFE countries.

In the five countries enumerated in table 6, the total number of hogs, goats and sheep in 1948 was greater than in 1947 but, except in Indonesia for goats and in Japan for goats and sheep, it was still below prewar.¹ Only for hogs has the 1948 total almost attained the prewar average.

¹ In Siam the supply of beef and pork in 1947-48 was still below the prewar level, as shown in the following. (From the *Annual Report to FAO for the Year 1948*, Ministry of Agriculture, Siam, p. 36.)

	Number animals slaughtered (thousand head)		Total production (thousand MT)	
	Prewar	1947/48	Prewar	1947/48
Beef	85.4	78.0	8.5	7.8
Pork	525.5	450.0	26.2	22.5

In the Philippines the import of meat products was increased from US\$1,772,000 to US\$5,213,000 (From the *Annual Report to FAO for 1948*, by the Government of the Philippines, p. 15).

TABLE 6
Numbers of Hogs, Goats and Sheep
(thousand head)

Year	Country	Hogs	Goats	Sheep
Prewar:	Burma (1935-39)	539	290	76
	China (1934-37)	60,675	19,695	15,578
	Indonesia (1940)	1,267	5,951	1,889
	Japan (1934)	449	36	108
	Korea, South (1938)	828	..	..
TOTAL		63,758	25,972	17,651
1947:	Burma	309	151	21
	China	53,758	13,609	9,191
	Indonesia	1,143	5,562	1,610
	Japan	110	288	239
	Korea, South	300	..	..
TOTAL		55,620	19,610	11,061
1948:	Burma	394	172	21
	China	59,510	13,976	10,450
	Indonesia	1,171	6,907	1,822
	Japan	170	383	279
	Korea, South	374	..	..
TOTAL		61,619	21,438	12,572

Source: Figures for prewar years are based on *Economic Survey of Asia and the Far East 1947*, table 44; figures for 1947 and 1948 are based on the Report by FAO to the ECAFE Secretariat, except those for Burma and Indonesia which are based on the Government reports prepared for this Survey.

In the absence of detailed information on the livestock slaughtered, it is not possible to infer from the above figures whether the *per capita* consumption of meat was increased or reduced in recent years. The all-round increase in the number of hogs, goats and sheep in 1948 over 1947, however, seems to indicate that the situation will be better in 1949 so far as the supply of meat is concerned.

The region is not self-sufficient in dairy products. In some countries of the region there has been a tendency toward an increase in the import of dairy produce in recent years. For example, imports (butter, milk, etc.) by the Philippines which totalled US\$10,712,000 in 1946, increased to US\$21,313,000 in 1947.¹ The import by Siam of canned milk increased from nil in 1945 to 1,172 tons in 1946, and 3,468 tons during the first eight months of 1947.²

¹ *Annual Report to FAO for 1948*, by the Government of the Philippines, p. 19.

² *Annual Report to FAO for 1948*, Ministry of Agriculture, Siam, p. 11.

China, Japan and South Korea are among the important countries relying on poultry products for food and, in the case of China, for export. Table 7 gives the numbers of chickens and ducks in these countries in 1948, as compared with 1947 and prewar.

TABLE 7
Numbers of Chickens and Ducks
(thousand head)

Year	Country	Chickens	Ducks	Total
Prewar:	China (1934-37)	265,860	64,307	330,167
	Japan (1934)	54,889	550	55,439
	Korea, South (1938)	3,423	7	3,430
	TOTAL	324,172	64,864	389,036
1947:	China	196,743	44,372	241,115
	Japan	19,600	200 ^a	19,800
	Korea, South	1,854	2 ^a	1,854
	TOTAL	218,197	44,574	262,769
1948:	China	209,335	44,106	253,441
	Japan	19,053	274	19,327
	Korea, South	2,267	3 ^a	2,270
	TOTAL	230,655	44,383	275,038

Source: Prewar figures from *Economic Survey of Asia and the Far East, 1947*, table 46. Figures for 1947 and 1948 are from FAO Reports.

^a ECAFE estimates.

The number of chickens in China, Japan and South Korea in 1948 showed an increase of 6 per cent over 1947, while the number of ducks remained about the same. Since there had been a great decrease in the number of chickens and ducks during the war, the 1948 level, though higher than 1947, was still much below prewar. The direct result of this decrease was a great reduction in the export of poultry products and eggs. Before the War, China was among the world's leading exporters of eggs and egg products. In the period 1934-38 the annual average export of shell eggs from China was 21,000 tons out of a world total of 367,000 tons, and that of egg products 56,000 tons out of a world total of 62,000 tons.¹ After 1941, China almost disappeared from the world egg market because of war destruction and shipping difficulties, but in 1946 she reappeared as an exporter on a modest scale.

The annual average export of poultry from Siam was 1,517,000 head in 1935-39, but because of wartime reduction in production and postwar transport difficulties, exports since the war have been insignificant.²

¹ FAO, *Commodity Series: Poultry and Eggs*, Washington, 1948, tables 8 & 9.

² *Annual Report to FAO for 1948*, by Ministry of Agriculture, Siam, p. 33.

Fishery Products

Fish is an important item of protective food in the region, and in most countries makes up a large part of the total consumption of animal protein. Fresh and brackish water fisheries in countries such as China and Siam constitute an important source of supply, statistics on which are generally lacking or incomplete. Hence the annual catch of fish in the region, estimated on the basis of available statistics, is in most cases understated.

The prewar annual catch of fish in the region was estimated at 8 million tons,¹ or about 45 per cent of the world total.

Since the war, the annual catch of fish in the region has been greatly reduced because of the wartime loss of fishing vessels. In 1946, for countries where statistics were available, the volume of catch was about one-half of the prewar level.² Ceylon alone showed an increase, almost threefold. In 1947 and 1948, on the basis of information available for a few countries, the annual catch of the region seemed to be still far below prewar because of slow recovery in fishing facilities.³

In Burma the annual catch of fish is officially put at 500,000 tons. In Indochina, the export of fish and fishery products in 1947 amounted to 36,000 tons. No prewar landing statistics are available for Siam, but the importance of fisheries can well be indicated by its export of 27,000 tons in 1938/39. It was estimated by official sources that the annual catch of fish in Siam in 1948 was 195,800 tons, about 30 per cent higher than in 1947.

The total catch of fish for Ceylon and India in 1943 was estimated at about 682,000 tons.⁴ The annual catch in Ceylon was estimated at about 8,000 tons prewar and 22,000 tons in 1946; India's prewar catch was put at 662,000 tons.⁵ A recent estimate gives India's annual fish production as about 700,000 tons, while its annual net export of fish (excluding canned fish) was reported at about 22,000 tons for 1945/46 and 1946/47.⁶

The annual catch of salt-water fish in China was reported at 259,549 tons⁷ in 1946, with no information available for 1947 and 1948. However, in the Annual Report of 1948 presented by China to FAO the

¹ *Economic Survey of Asia and the Far East, 1947*, Table 47.

² *Ibid.* pp. 71-72.

³ From FAO, *Supplementary Notes on Fisheries, 1948*.

⁴ K. L. Kesteven, *Report on the Fisheries of Pakistan, India and Ceylon*, August 1948, Singapore, p. 8.

⁵ *Economic Survey of Asia and the Far East, 1947*, Table 47.

⁶ Ministry of Agriculture, India, *Annual Progress and Programme Report to the FAO, 1948*, p. 10.

⁷ *Economic Survey of Asia and the Far East, 1947*, Table 47.

amount of landings of fish at the port of Shanghai was stated to be 56,500 tons in 1946 and 61,900 tons in 1947, showing an increase of about 10 per cent. In Hong Kong the year's catch in 1946 was 16,200 tons. The year's catch of fish in Japan in 1947 was reported at 2,472,100 tons¹, which was slightly lower than in 1946, but only about two-fifths of the 1938 total; the prewar figure, however, included Japan's colonies.

The 1940 catch of fish in Indonesia was officially estimated at 472,000 tons, and the 1948 catch at 350,000 tons. Of the total catch in 1940, sea fishery amounted to 325,000 tons and inland fishery to 147,000 tons. In 1948, sea fishery produced 255,000 and inland fishery 95,000 tons. The 1946 catch in the Malayan Union and Singapore was 51,300 tons, of which 41,800 tons was for the Malayan Union and 9,500 tons for the Colony of Singapore.² The total catch in 1947, although greater than in 1946 by 11,300 tons, was still below the prewar level of 72,000 tons.³ According to official reports, the year's catch in the Philippines in 1947 was 180,000 tons, being three and a half times greater than that in 1946 and, for the first time, exceeding the prewar level.

The scanty information available for 1948 suggests that 1948 production of fisheries in the region, like 1947 production, was still only about one-half of prewar. A decrease in the output of salted and canned fish is also reported for some exporting countries in the region. In view of the continuous increase in population and the slow recovery in production, there seems no prospect that the region will, in the near future, regain its prewar place in the export of fishery products. It is to be emphasized, however, that the potential output of fisheries in the region is considerable, and that, in the immediate future, the possibility of expansion for the fishing industry is even greater than for animal husbandry. In order to meet the serious deficiency in animal protein intake for the people of the region, measures to improve the supply and distribution of fishery products should be given high priority.

INDUSTRIAL AND COMMERCIAL CROPS

Industrial and commercial crops constitute the main source of foreign exchange for many countries in the region. In Ceylon, Malaya and Indonesia, for example, rubber, tea and coconuts are much more important than food crops so far as acreage and cash income are concerned. In this section, the region's production of cotton, rubber, tea and tobacco production in 1948, as compared with prewar, is briefly analysed.

¹ FAO, *Fisheries Bulletin*, Washington, Vol. 1, No. 4, November 1948.

² *Op. cit.*

³ *Economic Survey of Asia and the Far East, 1947*, Table 47.

Cotton

China, India and Pakistan are the major producers of raw cotton in the region. While China's production is mainly for domestic consumption, that of India and Pakistan is mainly for export. These three countries together accounted for over ninety-five per cent of the total raw cotton production of the region in 1934-38, 1947 and 1948.¹ The 1948 production was 13 per cent below prewar. This reduction was due to diversion of cotton acreage to food production, arising from food shortage, during and after the war.

From table 8 it will be seen that total production for the region in 1948 increased by 11 per cent over 1947, due mainly to greater output by China.

TABLE 8
Production of Raw Cotton
(thousand tons)

Country	1934-1938	1947/48	1948/49
Burma	21	7	...
China	826	844	974
India	1,004	387	373
Pakistan		201	256
Korea	40	14 ^a	17 ^a
Siam	1	19	20
TOTAL	1,892	1,472	1,640

Source: 1934-38 figures from FAO, *Yearbook of Food and Agricultural Statistics*, 1947; 1947-48 figures from data supplied by FAO to the ECAFE Secretariat for Burma, China, Pakistan, South Korea and Siam; *Agricultural Situation in India*, November, 1948, pp. 23-24; information supplied by the Government of Pakistan.

^a South Korea only.

Rubber

The region is the world's centre of natural rubber production. Of the region's output in 1948, Malaya, Indonesia and Ceylon together produced 90 per cent, and North Borneo, India, Indochina and Siam together only 10 per cent. Table 9 gives the region's production of natural rubber in 1948 compared with 1947 and prewar.

The total production of natural rubber in 1948 for the major producing countries in the region was about 10 per cent greater than in 1947 and 41 per cent above prewar. The increase in Malaya and Indonesia, the two largest producers of natural rubber in the world, was the most conspicuous. Production in 1948 in these two countries ex-

¹ Prewar figures are given in *Yearbook of Food and Agricultural Statistics*, 1947, FAO, Washington, 1948.

TABLE 9
Production of Natural Rubber
(thousand tons)

Country	1934-1938	1947	1948
Borneo, North ^a	34	46	65
Ceylon	62	89	93 ^b
India	13	16	15 ^b
Indochina	39	38	42 ^b
Indonesia	352	356	430
Malaya	423	646	698
Siam	49	56	33
TOTAL	973	1,247	1,376

Source: Figures are from *Monthly Economic Bulletin*, January 1949, issued by Office of the Commissioner-General, Singapore; *Rubber Statistical Bulletin*, October 1948, by Secretariat of the Rubber Study Group, London; Government Reports by Indonesia and by the Federation of Malaya to ECAFE Secretariat; Reports by FAO; *Economic Survey of Asia and the Far East, 1947*. Prewar figures are from *Yearbook of Food and Agricultural Statistics, 1947*.

^a Includes Brunei and Sarawak.

^b Projections based on figures in *Rubber Statistical Bulletin*, October, 1948.

ceeded the prewar level by 45 per cent. The postwar increase in rubber production in the major producing countries has served to intensify competition with synthetic rubber, and the danger of over-production in relation to world demand is likely to call for intergovernmental action.

Tea

Tea production data are incomplete for countries in the region, especially for China, the largest producing country. However, available material seems to indicate a rapid decline compared with prewar, except in India, Pakistan and Ceylon.

In China, prewar production estimates, according to the League of Nations, range between 300,000 and 500,000 tons. A large proportion of China's tea production has been for home consumption, the recorded export being only about one-tenth, e.g., 40,700 tons in 1937 and 41,600 tons in 1938. In 1948, because of war devastation and civil war, tea output, as estimated by the Chinese Ministry of Agriculture at 50,000 tons, is unduly low.¹

Tea output in Undivided India was 201,000 tons in 1939, rose to 260,400 tons in 1943, fell to 232,000 tons in 1944, and rose again to 260,400 tons in 1945. The latest estimate for 1948 was 248,000 tons for

¹ *Statistical Yearbook, 1942-44*, League of Nations, Geneva, 1945, p. 125; *Annual Progress and Program Report to the FAO, 1948*, Nanking, June, 1948, p. 21.

TABLE 10
Production of Tobacco
 (thousand tons)

Country	1934-1938	1947	1948
Burma	45	..	..
China	649	649	659
India/Pakistan	501	481 ^a	476 ^a
Japan	64	60	62
Korea, South	23 ^b	11	20
Malaya .....	...	15	30
Philippines	32	12	29
Siam	8	7	8
TOTAL.....	1,322	1,235	1,284

Source: Except the 1948 figure for Malaya which was based on government reports and the 1947 and 1948 figures for India which were taken from the *Eastern Economist*, Annual Number, 1948, all postwar figures are from the Report by FAO to ECAFE Secretariat. Prewar figures are from *Yearbook of Food and Agricultural Statistics, 1947*.

^a Unofficial and provisional estimates.

^b For Korea as a whole.

the Indian Union which was about 1,400 to 1,800 tons more than in 1947. The production of Pakistan for the nine months from April to December 1948 was reported to be 20,725 tons as against 19,645 tons for the same period in 1947.¹

Prewar (1934-38) production of tea in Ceylon was about 101,000 tons per annum. It rose to 107,800 tons in 1940 and 120,200 tons in 1941. After the war, tea output was further expanded. It reached a record high level of 133,000 tons in 1945, but fell to 127,000 and 120,000 tons in 1946 and 1947 respectively. In 1948 it rose to 140,000 tons.

Tea output in Indonesia, 81,000 tons in 1938, was only 15,000 tons in 1948. In Japan, output fell to 23,000 tons, compared with 55,000 tons in 1938.²

Thus, for three of the major tea producing countries in Asia, namely China, Indonesia and Japan, there has been a decline in production compared with prewar. Ceylon's postwar output shows a definite increase,

¹ Prewar to 1945 figures from *Monthly Abstract of Statistics*, December, 1948, Ministry of Commerce, New Delhi, p. 10. The 1948 estimate from *Agricultural Situation in India*, Feb. 1949. For Pakistan figures, see *International Tea Committee Monthly Statistical Summary*, March, 1949.

² *Statistical Yearbook, 1942-44*, League of Nations; for Ceylon see *Ceylon Yearbook 1948*, p. 62. For Indonesia see *Supplement to Economic Survey of Indonesia for 1948*, prepared by the Government in Batavia. 1947 figures for Japan are from *Economic Survey of Asia and the Far East, 1947*.

and the production of India and Pakistan, though fluctuating from year to year, also tended to exceed the prewar level.

Tobacco

The total production of tobacco in 1938 in those countries of the region for which information was available was about 1.3 million tons, 4 per cent above the 1947 level but 3 per cent below prewar. Figures for individual countries are given in table 10 on page 59.

Most of the producing countries in the region showed an increase in tobacco production in 1948 over 1947, while the production of India/Pakistan fell slightly in 1948 but remained at about the same level as in 1946.

SUPPLY OF WORKING ANIMALS AND AGRICULTURAL REQUISITES

Working Animals

Since working animals still provide the major source of farm power in the region, changes in their numbers have a direct bearing on changes in agricultural production.

The number of working animals including oxen, buffaloes and horses in those countries for which information is available showed in general an increase in 1948 over 1947, but was still far below the prewar level. As shown in table 11 the total number of oxen in 1948 for Burma, China, Indonesia, Japan, South Korea and Siam was 34,523,000 head, which was about 7 per cent greater than in 1947, but 18 per cent smaller than prewar. Similar changes occurred for buffaloes and horses. As buffaloes are the most important working animals in rice-farming areas, their increase in 1948 contributed to the increase in rice production. The total number of working animals in 1948 was, however, still far below the prewar level. This is one of the main factors responsible for the slow postwar recovery of agricultural production in the region.

Need for Agricultural Requisites

The inadequate supply of agricultural requisites derived from industrial sources, such as chemical fertilizers, irrigation and drainage equipment, agricultural machinery and implements, pesticides, etc., is another major factor retarding recovery of agricultural production. At the third session of the Commission in Ootacamund, India, in June 1948, a resolution was adopted to establish a joint working party representative of the Food and Agriculture Organization and the Economic Commission for Asia and the Far East to "(a) examine the stated requirements of Governments in the ECAFE region for agricultural requisites, (b) advise Governments on action that can be taken nationally to meet these requirements from indigenous sources, (c) determine the circum-

TABLE 11
Number of Working Animals
(thousand head)

Country	Year	Pre-war	1947	Post-war	1948
		Number		1947	
<i>Oxen:</i>					
Burma	1940-41	5,246	4,480	5,207	
China	1934-37	23,521	18,998	18,200	
Indonesia	1940	4,599	2,691	3,578	
Japan	1934	1,585	2,069	2,100	
Korea, South	1938	925	610	640	
Siam	1941	6,385	3,555	4,798	
	TOTAL.....	42,261	32,403	34,523	
<i>Buffaloes:</i>					
Burma	1940-41	1,050	717	721	
China	1934-37	12,645	9,320	9,460	
Indonesia	1940	3,176	1,636	2,746	
Siam	1941	6,310	3,989	5,230	
	TOTAL.....	23,181	15,662	18,157	
<i>Horses:</i>					
Burma	1940-41	45	11	12	
China	1934-37	3,768	2,039	2,023	
Japan	1934	1,420	1,154	1,092	
Korea, South	1938	33	34	36	
Siam	1935-39	375	89	205	
	TOTAL.....	5,641	3,327	3,368	

Source: Figures for prewar years are from *Economic Survey of Asia and the Far East, 1947*, Tables 42 and 43. Figures for Indonesia and Siam in 1947 and 1948 are from the Government reports sent in for this Survey. All other figures are based on the report by FAO to ECAFE Secretariat.

stances and conditions under which Governments in the ECAFE region would be benefited by taking joint action with reference to both the production and distribution of agricultural requisites, and (d) analyse and examine the national food and agricultural plans in the ECAFE region in the light of the stated requirements of agricultural requisites and the supplies thereof which are expected to become available from indigenous production and international trade." This resolution was in pursuance of a recommendation by the Economic and Social Council to the regional economic commissions for action, in consultation with the FAO, "to increase the supply of agricultural requisites as a means of increasing world food supply." The Working Party's Report was submitted to the fourth session of the Commission in December 1948.¹

¹ Report of the FAO/ECAFE Joint Working Party on Agricultural Requisites, E/CN.11/135 Add. 1, 13 November 1948. The present section is based mainly on this report.

Fertilizers. Organic fertilizers, in the form of night soil, composts, green manure, etc., are used to a much larger extent in the region than inorganic or chemical fertilizers. The latter, however, are being increasingly demanded by countries of the region as a means to restore and increase soil fertility to the land, and to raise agricultural yield to meet the food requirements of a growing population. The fact that countries of the ECAFE region with about one-third of the world's cultivated land, currently demand only 11 per cent of world production of chemical fertilizers speaks eloquently for the potential demand by these countries for a higher proportion of world fertilizer production.

TABLE 12
Production, Import and Consumption of Chemical Fertilizers
(in thousand tons nitrogen)

Seven ECAFE countries*	Pre-war		1947/48		1948/49	
	Thousands tons	Per cent	Thousands tons	Per cent	Thousands tons	Per cent
Production	23.65	19.6	12.61	13.6	28.43	23.4
Import	96.95	80.4	79.91	86.4	93.20	76.6
Total Supply	120.60	100.0	92.52	100.0	121.63	100.0
<i>Japan, Ryukyus & South Korea</i>						
Production	256.21	51.8	200.52	52.3	228.00	58.0
Import	238.59	48.2	183.11	47.7	165.28	42.0
Total Supply	494.80	100.0	383.63	100.0	393.28	100.0
<i>Total Region</i>						
Production	279.86	45.5	213.13	44.8	256.43	49.8
Import	335.54	54.5	263.02	55.2	258.48	50.2
Total Supply	615.40	100.0	476.15	100.0	514.91	100.0

Source: Supplied by FAO Fertilizer Committee.

* Burma, China (including Taiwan), India, Indonesia, Pakistan, Philippines and Siam.

The figures in table 12 show that fertilizer consumption in seven selected ECAFE countries, together with Japan, the Ryukyus and South Korea, in 1948/49 increased by 8.2 per cent over 1947/48, but was still 16.5 per cent below the prewar level. Of this total consumption, the proportion imported from outside the region was 50.2 per cent in 1948/49, as compared with 55.2 per cent in 1947/48, and 54.5 per cent in prewar. Dependence on imports has thus tended to decrease. Such dependence is, in any case, much less in Japan, Ryukyus and South Korea than in the ECAFE countries.

Much of the chemical nitrogen now available is used on commercial export crops, such as sugar, coconuts for oil, and tobacco. In view of the

current food shortage, the urgent problem is not only to increase the total supply of fertilizers but to produce the needed chemical fertilizers at prices low enough to encourage more extensive use on food crops. In some countries progress is already being made in the distribution of fertilizers specifically for food crops.

One of the most important measures to increase the supply of fertilizers is to increase production of fertilizers within the region itself. Fertilizer manufacturing projects are under way in China and India to increase capacity for the production of nitrogen and phosphates. The largest is the project at Sindri, India, which is to have an annual capacity of 350,000 tons of sulphate of ammonia. Smaller plants are being actively projected in Taiwan, China, for the production of sulphate of ammonia, ammonium nitrate, cyanamide, fused phosphate and superphosphate.

The total tonnage of fertilizer involved in these projects is 580,000 tons per year, one-third of which is near realization while the balance is in the formative stage. A new plant is under consideration in the Philippines with an annual projected capacity of 126,000 tons of sulphate of ammonia. A new plant is also being planned for Ceylon.

The increase in fertilizer production from chemical sources thus far planned will not, however, meet the total needs of the ECAFE region. For many years to come, even assuming that fertilizers from local and organic sources are fully utilized, the region will probably depend on imports for a substantial part of the chemical fertilizers needed to maintain the necessary level of food production.

Irrigation and drainage equipment. Water control is a basic feature of agriculture in every Asian country. Much of this work is being carried out with traditional techniques and local labour and materials, but supplies of imported materials and mechanical equipment such as pumps, power units, well casings, pipes, etc., are required. Excavators and earth-moving equipment including tractors with bulldozer and ditch-digging attachments are also needed. One of the main stated needs from countries of the region is for 2,000 relatively small efficient pumps annually for the next three years (see table 13). These are of the turbine or centrifugal type ranging from 2 in. to 12 in. Electric diesel and petrol motors are also required. The pumps are for installation in tube wells for raising water from rivers and canals, and for drainage purposes. Large volumes of water and relatively low lift (5 to 25 foot head) are the characteristic requirement of rice irrigation.

Agricultural machinery and implements. Traditional farming practices employing mainly hand tools and animal-drawn ploughs still predominate in the region. Although some power-operated machinery had

TABLE 13
*Stated Requirements for Power Pumps on Farms
(units)*

<i>Country</i>	<i>1949</i>	<i>1950</i>	<i>1951</i>
Burma	10	70	100
Ceylon	15	—	—
China	536 ^a	418	637
India	809	1,009	1,114
Indonesia	10 ^b	—	—
Malaya and North Borneo...	15 ^b	4	4
Pakistan	300	300	300
Philippines	150 ^b	—	—
Siam	128	64	—
TOTAL	1,973	1,865	2,155

^a Considerable stocks on hand from UNRRA supplies.

^b From replies to 1947 ECAFE questionnaires.

been introduced at widely scattered points, recent FAO estimates indicate that the ECAFE region has 30 per cent of the world's cultivated land but only 0.3 per cent of the world's tractors. It seems unlikely that widespread mechanization of farming can be effected without long-term adjustments in land tenure and a complete reorientation of farm technology. However, the urgent need to bring new and abandoned land into cultivation has created a relatively small but very pressing need for supplies of tractors and associated equipment in the region. The stated requirements of Governments in the region, as shown in table 14, are approximately 10,000 tractors including 2,000 heavy types over the three years 1949-51. This requirement seems extremely moderate in relation to world production which, excluding garden types, is likely to reach 700,000 units in 1948. There is no domestic production of tractors in countries of the ECAFE region.

Pesticides. Scientific control of crop pests has never been far advanced in countries of Asia. The FAO Rice Study Group estimated annual losses of rice from pests during all stages of production and processing at the enormous total of 12 million tons. Damage to other agricultural products in the region is also substantial. The average annual loss of crops from pests and diseases is stated to be about 10 per cent in China, Japan, India and several other Far Eastern countries.

As shown in table 15, the stated over-all annual import requirements for all types of chemical pesticides for agriculture in countries of the ECAFE region amount to some 16,000 to 20,000 tons in the next three years. This represents a marked increase over present and prewar usage, but in comparison with world demand is extremely small.

TABLE 14
Stated Requirements for Farm Tractors
 (units)

Country	Heavy			Medium and light ^a			Total ^a		
	1949	1950	1951	1949	1950	1951	1949	1950	1951
Burma	10	—	—	140	350	500	150	350	500
Ceylon	29 ^b			80 ^b			109 ^b		
China	— ^c			— ^c			— ^c		
India	300	350	350	130 ^d	1,110 ^d	2,470 ^d	430	1,460	2,820
Indochina	•			•			•		
Indonesia	84	64	45	265	253	265	349	317	310
Malaya and North Borneo	20 ^e			50 ^e			70 ^e		
Pakistan	150	200	200	120 ^f	220 ^f	370 ^f	270	420	570
Philippines	129	31	15	360	560	720	489	591	735
Siam	8	—	—	30	20	20	38	20	20
TOTAL.....	730	645	610	1,175	2,513	4,345	1,905	3,158	4,955

^a Excludes garden types.^b Annual requirements not specified.^c Considerable stocks on hand, accumulated from UNRRA aid.^d Includes tractors for irrigation works.^e Subdivision into types not available. Total requirements stated to be 200 heavy, 200 medium types, but period not specified.^f From replies to 1947 ECAFE questionnaire. Some of these tractors have been delivered during 1948 and it is probable that the remaining requirement may be spread over more than one year.^e Includes requirements for pesticide application.

TABLE 15
Stated Requirements for Chemical Pesticides
 (tons)

Country	1949	1950	1951
Ceylon	20	20	20
China	1,715	2,147	2,690
India	7,600	7,790	8,515
Indonesia ^a	610	660	660
Pakistan	2,160	2,420	2,680
Philippines	4,380	5,250	6,130
Siam	80	85	85
TOTAL.....	16,565	18,372	20,780

^a For non-estate agriculture only.

The stated requirements as given in table 15 consist of the following categories of chemical pesticides:

	1949	1950	1951
Arsenic compounds	3,559	4,255	4,980
Copper sulphate	1,460	1,560	1,860
DDT and benzene hexachloride.	2,662	3,142	3,534
Other	8,884	9,415	10,406
TOTAL	16,565	18,372	20,780

All the quantities stated above are required from abroad. Domestic production of pesticides within the region is virtually confined to those of plant origin, notably derris. Production of derris root, however, decreased markedly during the war, from 2,590 tons in 1938-40 to 900 tons in 1946, in Malaya, Indonesia, the Philippines, Indochina, and Taiwan. Attempts to restore production since 1946 have been made without much success.

Future plans for pesticide production include the completion of a plant in Taiwan, with a monthly capacity of 70 tons, for the manufacture of DDT. Japan has capacity for the manufacture of arsenicals and copper sulphate. Japan was formerly the largest producer of pyrethrum in the world and exported considerable quantities, but production declined from 12,600 tons in 1938-40 to 2,850 tons in 1945 and has not yet recovered.

Other requisites. Most countries in the region are anxious to initiate or expand research activities on veterinary problems. For these purposes they require the following broad categories of items from abroad: (1) materials for the production of biologics; (2) laboratory equipment; and (3) drugs required for the prevention and treatment of cattle diseases.

To expand the processing of food and industrial crops in the region, equipment such as rice hullers and polishers, rice-mills, flour-mills, cotton-gins, oil seed crushers or mills, copra presses, sugar-mills, and tea and rubber processing equipment, is needed. For the establishment of new power-operated sugar and flour-mills, in countries such as China, most of the supplies have to be imported. There is need, however, for increased production of simple processing equipment within the region.

Losses of food grains in storage, attributed to rodents, insects, etc., are very large. Improvement in storage facilities, both at terminals and during intermediate stages, is considered most urgent for agricultural products because of their perishable nature. Attempts have been made in some countries to reduce losses by use of fumigants and insecticides, to provide temporary sheds for government stored grains, and to regu-

late storage conditions by licensing warehouses so as to provide suitable construction and maintenance.

Refrigeration offers great potentialities in preserving perishable food and agricultural products like meat, milk, and fruit, in regard to which the diet of countries in the region is generally deficient. Refrigeration is still in its infancy in the region, but its importance is increasingly recognized through planned installation, on the part of some Governments, of ice-making plants, cold stores and deep freeze stores, railway insulated and refrigerator cars, and insulated and refrigerator trucks.

In regard to fisheries requisites, the basic need is for fibre materials, i.e. for nets, netting, twine, sail-cloth and rope made from cotton, hemp and ramie. Hooks are another requirement. Engines and spare parts, fuel and the material for building and fitting mechanized vessels, and in some cases complete vessels are needed. Ammonia and machinery are needed for ice-making, and salt for processing. A large proportion of the fibre materials is locally produced, but a part will have to be imported from outside the region.

Finally, slow rehabilitation and reconstruction of transport systems in the region makes it difficult to distribute available food supplies to the population. In Siam, for instance, 1948 surplus rice production had to go to waste on account of shortage of railway rolling-stock, while elsewhere food deficit was giving rise to malnutrition and starvation. An early improvement in transport, coupled with better co-ordination among the various forms of transport (railways, waterways and highways), would go far to reduce food deficits in major importing countries including China, Japan, India, Ceylon and Malaya.

CHAPTER V

Industry and Mining

During 1948 a marked general improvement in industrial and mining production over 1947 levels occurred throughout the region except in China. Nevertheless production remained well below prewar or wartime levels, and relative to other regions of the world, recovery proceeded slowly.

For the region as a whole, total production by all major industries increased in 1948 over 1947. Increases were substantial in the production of tin, crude petroleum, electricity generation, and chemical and machinery products. Smaller increases were registered for iron-ore, coal, iron and steel, cotton textiles, silk and cement. In all cases, except electric-power generation, however, production in 1948 remained substantially below prewar levels.

Capacity in the principal industries is concentrated in India, China and Japan. For example, more than 90 per cent of the region's prewar production of cotton textiles, electric power, cement, coal, iron and steel, chemicals and machinery was accounted for by these three countries. In other countries of the region, the main industries¹ are based on mining — tin, petroleum, iron-ore, and a number of other minerals; there are also various small-scale industries and handicrafts.

In China, where in 1948 production generally declined below the already low levels of 1947, military and political developments obscured the purely economic factors influencing production. The situation in China cannot be interpreted apart from current military and political factors and the consequences of the long war with Japan.

In India there was substantial recovery from the postwar depression of 1946-47 and from the dislocations consequent upon the achievement of independence and the partition. However, in spite of record levels in a number of machinery and chemical products during 1948, many basic industries did not reach their wartime levels of output.

¹ Rubber is considered under agricultural production in chapter IV.

The greatest advances in 1948 over 1947 were registered in Japan, where the bulk of the industrial capacity of the AFE region is concentrated. The general improvement in Japan resulted primarily from increased coal and iron-ore supplies, both from indigenous sources and imports. Nevertheless the over-all level of production in 1948 was only one-third of the 1938 level and less than half the level which SCAP economists have estimated as necessary to remove the need for external aid.

In other countries of the region substantial advances were achieved. Even in those countries where political unrest still prevails in varying degrees, production generally improved. However, prewar levels were not approached. For the most part the improvements resulted from progress in replacement and rehabilitation of machinery and equipment.

There follows a short study of progress in each of the main industries of the region, after which developments in individual countries are examined.

MINING

Iron-ore

The production of iron-ore in 1948 advanced fractionally over 1947 levels — most of the increase being in Japan — but remained at about one-third of prewar levels. While production in India and Japan was 96 per cent and 71 per cent respectively of prewar, the low levels were concentrated in China, Malaya and the Philippines, all of which were principal suppliers of Japan's iron and steel industry before the war. Table 16 shows the course of production in the major areas.

TABLE 16
Iron Ore Production
(thousand tons)

	Prewar average 1935-39	Wartime peak	1947	1948
India	2,567	3,116	2,450	2,450
China	3,360 ^a	3,500	150	158
Malaya	1,682	1,962	^b	^b
Japan	754	3,586	497	535
Philippines	911	1,236	^b	^b
TOTAL.....	9,274	13,400	3,097	3,143

Source: *UN Monthly Bulletin of Statistics*, January-February, 1949; Replies to Questionnaires, ECAFE Industrial Development Working Party; *Japanese Economic Statistics*, January, 1949; *Bulletin of Mining Statistics of Malaya*, 1947.

^a 1936 only.

^b Less than 1,000 tons.

Wartime disruption and exploitation under Japanese occupation brought operation to low levels or even to a halt, and little recovery has yet taken place in the affected areas. Most of the present activity in China is in the mines of Hainan Island. In the Philippines and Malaya, rehabilitation of iron-ore mines has received a low priority in view of the uncertainties of trade resumption with Japan and the absence of demand elsewhere. In Japan the wartime production resulted from exploitation of limited resources of low-grade ore deposits, and such large output cannot again be expected. In India, output has been limited by the demands of the iron and steel industry which has been handicapped by shortages of coal and transport facilities.

Coal

During 1948, coal production in the region advanced only slightly over 1947. The sharp decline in China's production almost offset the general advances registered elsewhere, particularly in Japan. The regional production of coal consequently remained at slightly less than 70 per cent of the prewar level and continued to be one of the major factors limiting industrial activity. The production record of the principal producing areas is shown in table 17.

TABLE 17
Coal Production
(thousand tons)

	Prewar (1935-39) average	Wartime peak	1947	1948
China	36,900 ^a	46,000	19,500 ^c	13,800 ^c
India	28,000	29,721	30,556 ^b	30,300
Pakistan ^b	2,186	2,500	66 ^b	279
Indochina	1,147	..	250	339
Indonesia	521	281	300	519
Malaya	45,000	57,324	226	375
Japan			27,240	33,720
TOTAL.....	113,754	135,826	78,138	79,332

Source: *UN Monthly Bulletin of Statistics*, Jan.-Feb., 1949; *Monthly Abstract of Statistics*, Government of India, January, 1949; *Conference of Central Advisory Council of Industries*, Government of India, January, 1949; *Japanese Economic Statistics*, January, 1949; Replies to Questionnaires, ECAFE Industrial Development Working Party.

^a 1937 only, including Manchuria.

^b Pakistan figures included in India up to July, 1947.

^c Production from all enterprises under the National Resources Commission and private owners within Nationalist China.

Except in India where output of coal has fluctuated in the last ten years between 28 million and 30 million tons, coal production is well below prewar. China's output, including that from the new mines established in the Northern Provinces under the Japanese occupation, was a key factor in the prewar coal economy of the region. It supplemented to a considerable extent Japan's needs, particularly of metallurgical coal, besides making it possible to develop heavy industries in Northern China itself. It is the decline of output from these sources of coal supply which has been mainly responsible for China being reduced to a third place among the coal producing countries of Asia and the Far East. Even in the central areas, heavy flooding of mines and exhaustion and deterioration of mining equipment have caused great declines in output.

Since the war there has been a record output of coal in India, resulting mainly from the installation of mechanical cutting equipment, although its benefits did not fully accrue to Indian industries on account of transport bottlenecks. Expansion would have been more rapid but for an enforced lowering of output on account of accumulation of stocks at pitheads and for the reduction in hours of work from 9 to 8 a day. As a result of transport difficulties, stocks piled up, the maximum being 2,650,000 tons in June 1948. A significant feature of coal mining in India has been the decline in the productivity of labour which has been caused, not merely by reduced hours of work, but also by the need to resort to deeper cut mining as upper seams become exhausted, and by use of depreciated equipment not yet adequately replaced. The net annual production of coal per worker declined from 141 tons in 1938 to 92 in 1948. Over the same period, the daily number of workers employed increased from 201,093 in 1938 to 321,537 in 1947. As against the current output of 30.3 million tons, the current minimum requirements are put at about 32 million tons. As a result, strict economy and rationing of coal are enforced. The limits of economy and rationing seem to have been approached, however, and there is little margin left to allow even a modest increase in the output of cement, iron and steel, glass, etc. On the other hand, removal of transport bottlenecks might make possible deliveries of about 10 per cent more coal to industrial users.

Coal production in Japan in 1948 increased by 24 per cent over 1947, but was still only 75 per cent of prewar. During the war, Japan's coal-mines were heavily exploited. At the end of the war the repatriation of Korean and Chinese miners necessitated a large-scale recruitment programme of new and untrained workers. These factors, coupled with shorter hours and depressed living conditions, caused a steep decline in productivity per miner since the war. Today coal miners number 454,000 in contrast with 264,000 in 1938. The improved output in 1948 over

1947 resulted chiefly from a large-scale mine rehabilitation programme and from the provision of increased quantities of incentive goods for mine-workers.

In other countries of the region rehabilitation has been slow in terms of prewar levels of production. In Indochina, although 1948 production showed an increase of about 35 per cent over the previous year on account of rehabilitation of mines in Tonkin; current annual production of 339,000 tons is only about 15 per cent of prewar. Official targets of recovery do not anticipate restoration of the prewar level before 1953. In Malaya, 1948 saw an increase of almost 66 per cent over 1947 output, but current output was still only 72 per cent of prewar. Substantial progress was also made in Indonesia, although 1948 output was only 45 per cent of prewar.

Crude Petroleum

Before the war, Indonesia was the largest producer of crude petroleum in the region. Burma, Brunei and Sarawak were also important producers. Relatively smaller amounts were produced in India and Pakistan, China and Japan. During the war, the industry in the major producing areas suffered severe damage, and, since the war, rehabilitation has progressed slowly on account of continuing political disturbances and uncertainties and limited imports of machinery and equipment. Whereas, before the war, production and consumption within the region were more or less in balance, the current low level of production together with growing requirements (partly due to shortage of coal) has made the region a heavy net importer of petroleum products (see chapter XII).

During the war the Kansu oilfield in Northwest China was developed, but the vast distances from markets and the inaccessibility of this field make utilization in the near future extremely difficult.

The 1947 output of 13 million barrels from the wells in Brunei and Sarawak was only next to Indonesia and the Indian subcontinent. The 1948 output of over 20 million barrels was the greatest in the British Commonwealth. Production in Burma in 1948 was only a fraction of prewar. In Indonesia considerably more rehabilitation has taken place than in Burma, and in 1948 Indonesia regained first place among the oil producers of the region. Out of a total production of about 4 million tons it is reported that exports from Indonesia in 1948 of petroleum products reached 3.8 million tons, or about 60 per cent of prewar. This was an increase of some four times over 1947.

In Japan, 1948 crude oil production amounted to 160,000 tons, slightly less than 1947 output and only 47 per cent of 1938. Production from India and Pakistan in 1948 was 380,000 tons.

TABLE 18
Output of Tin-In-Ore
 (in thousands of tons)

	<i>Prewar average (1935-39)</i>	1947	1948
Burma	4.3	1.8	1.3
China	10.9	4.1	4.9
Indochina	1.4	..	..
Siam	14.5	1.4	4.3
Indonesia	29.9	16.2	30.6
Malaya	57.1	27.4	45.7
TOTAL.....	118.2	50.9	86.8

Source: *Statistical Bulletin*, International Tin Study Group, March, 1949; *Malayan Statistics on Mineral Production*, March, 1949; *Minerals Yearbook*, U.S. Bureau of Mines, 1946.

Tin

Production of tin-ore during 1948, particularly in Malaya and Indonesia, advanced substantially over 1947 as a result of continued rehabilitation of the mines under high-priority programmes. Tin mines in Malaya and Indonesia suffered heavily from the scorched earth policy on the eve of the Japanese invasion, as well as from wartime neglect; mines elsewhere suffered from lack of fuel and maintenance during the occupation. In 1948, production in the region was 70 per cent higher than in 1947, but still only 73 per cent of the prewar average. Prewar output was exceeded in Indonesia, while in Malaya production was 80 per cent of prewar average. In China, Burma, Indochina and Siam, recovery was very much less marked, the combined output of the four countries being only 33 per cent of prewar. (See table 18.)

Other Minerals

Of other minerals in the region, perhaps the most important is tungsten, of which the region's share of prewar world output was 63 per cent. In China, which was the world's largest producer of tungsten, 1948 estimates of 9,600 tons reflect an increase of almost 50 per cent over 1947; however current production was only about 75 per cent of 1938 and about 55 per cent of the previous peak. In Siam the 1948 estimate of tungsten production is equal to the prewar level of 200 tons. Burma's 1948 production of 2,000 tons represented an increase of 30 per cent over 1947 but was only 33 per cent of the 1938 level. The over-all production of tungsten in the region is about 77 per cent of the prewar level.

Similar trends are noticeable in regard to other minerals. For example, antimony production in China, which was the biggest producer in the region, is only about 20 per cent of the prewar output of 14,000

tons, in spite of considerable improvement in output during 1948 as a result of rehabilitation of certain mines. As regards copper-ore, there has been some degree of recovery, particularly in the Philippines, China and Japan. The over-all production of copper-ore shows an increase of about 6 per cent over 1947, and current production is about 78 per cent of the prewar average. In the production of other metals, such as zinc and lead, recovery has been very slow on account of unsettled conditions especially in Burma, the main producer of zinc and lead in the region.

INDUSTRY

Iron and Steel

As in most major industries, Japan was the largest manufacturer of iron and steel in the region. This was the result of utilization of indigenous coal and iron deposits, developments in the use of scrap, and imports of ore, pig-iron and coal from several countries of the region. During the war Japan attained a peak production of 7.8 million tons of steel. Reduction of Japanese production from that level to the 1948 level of 1.7 million tons is the biggest single factor in the tremendous decline in the steel output of the region. Japanese production has fallen from prewar and wartime levels because of shortage of high-grade ore, shortage of coal, deterioration of plant, and scarcity of refractory materials. As was seen above, Japan's main sources of iron-ore in the region, particularly Malaya, the Philippines and China, have all experienced drastic declines in output. During 1948, however, Japan entered into several agreements with countries in the region to obtain a larger share of their iron-ore, and consequently made considerable progress, increasing production of steel by 82 per cent over 1947.

Growth of the iron and steel industry in China centred on the large iron and steel plants in Manchuria and North China. It was this development which made China the second largest manufacturer of pig-iron in the region. The great destruction of iron and steel plants in North China and Manchuria as a result of the war severely reduced China's capacity. On account of continuing unrest, shortage of coal and ore, and transport difficulties, China has not been able to restore output either in Manchuria or in other areas, and 1948 production of iron and steel was negligible.

India reached a peak production of 1.4 million tons of steel during the war. In spite of pent-up wartime demand and the demands occasioned by many new construction projects of high priority, the iron and steel industry has failed to maintain the wartime level of output. An important cause of the decline in output has been the continued outbreak of strikes, accounting for a loss of about 3.3 million man-days in the first quarter of 1948. Transport difficulties handicapped regular supply of coal and

ore and the despatch of finished products. The wartime use of plant and machinery at high pressure, in the absence of adequate replacements and improvements, particularly in the case of open-hearth plants, refractory linings and milling sections, resulted in a decline in productive capacity.

The decline in the iron and steel industry of the region is one of the most important factors responsible for the low level of production both in industry and agriculture. The shortage of iron and steel is holding up the rehabilitation and expansion of industrial plant and transport systems and the production of many agricultural requisites. Even the construction of housing is being adversely affected.

TABLE 19
Iron and Steel Production
(thousand tons)

	Prewar average (1935-39)	Previous peak	1947	1948
<i>Pig Iron:</i>				
China	1,535	2,466	6	11
India	1,668	2,040	1,540	1,470
Japan	2,400	3,000	360	805
<i>Steel (ingots or crude):</i>				
China	810	..	57	44
India	960	1,392	1,224	1,200
Japan	5,300	7,824	936	1,705

Source: Replies to Questionnaires, ECAFE Industrial Development Working Party; *Quarterly Bulletin*, Ministry of Industries and Supplies, Government of India, 1948; *Japanese Economic Statistics*, January 1949.

Cement

Except in India and Pakistan, where production of cement compares favourably with prewar, and where plant expansion has been taking place, all other countries in Asia and the Far East fall short of their prewar output. Over-all production of the region is only a little more than 50 per cent of prewar. The greatest decline in production has taken place in Japan, where considerable capacity is idle. Cement production has declined simultaneously with the decline in the supply of coal. Considerable efforts were made in most countries to increase production of cement in the current year on account of its importance in industrial and transport rehabilitation. However, owing to coal shortage, nowhere in the region is capacity fully employed. Even in India, against the rated annual capacity of 2.1 million tons, the 1948 production was only 1.5 million tons. Japan's rated capacity of nearly 6 million tons produced only 1.8 million tons in 1948. Against the rated capacity of about 160,000 tons in the Philippines, production was only 115,000 tons. Similarly in Indochina, where rated capacity is 300,000 tons, production in 1948 was only 97,000 tons.

TABLE 20
Cement Production
 (thousand tons)

	Prewar average (1935-39)	Previous peak	1947	1948
India	1,500	2,220	1,440	1,524
Pakistan	(Included in India figures)			
China	710	1,000	500	550
Japan	5,700	6,048	1,236	1,830
Philippines	150	190	134	115
Siam	100	120	59	84
Burma	50	67	..	..
Indochina	266	..	40	97
Indonesia	211	240	168	..

Source: *UN Monthly Bulletin of Statistics*, Jan.-Feb., 1949; *Monthly Abstract of Statistics*, Government of India, January, 1949; Replies to Questionnaires, ECAFE Industrial Development Working Party.

Cotton Textiles

Cotton textiles are the premier industry of the region. Table 21 showing mill consumption of raw cotton in China, India, Pakistan and Japan, which together account for 95 per cent of the region's cotton textile industry, indicates that the region's production of cotton textiles has declined in relation to prewar. This has been a result of shortage of raw cotton supplies and a decline in manufacturing capacity. This decline was concentrated almost entirely in Japan; indeed, consumption in India and Pakistan showed an appreciable increase.

TABLE 21
Mill Consumption of Raw Cotton
 (million bales)

Country	1937-38	1946-47	1947-48
Japan	3.45	0.73	0.61
India	3.00	3.47	3.55
Pakistan	3.00	3.47	0.23
China	3.08	2.87	2.90
TOTAL	9.53	7.07	7.29

Source: *World Fibre Survey*, FAO, August, 1947; *FAO Annual Review*, 1948.

Spindle capacity in Japan has also been drastically reduced, from 11.5 million in 1939 to 4 million in 1948. Capacity in India and Pakistan has increased slightly from 10.1 million to 10.4 million, while that of China has declined from 5.1 million to 4.9 million. Other countries of the region have relatively small spindle capacity. Currently the number of spindles in Ceylon is reported at 22,000, Hongkong 150,000-200,000, Indochina 130,000, Philippines 20,000 and Indonesia 2,000.

Table 22 shows cotton yarn and fabrics production, prewar and in 1947 and 1948, in India, Pakistan, Japan and China.

TABLE 22
Mill Production of Cotton Yarn and Fabrics

	<i>Cotton Yarn</i> (thousand tons)		
	1938	1947	1948
India	527	603	654
Pakistan			
Japan	553	122	125
China	394 ^a	299	336

	<i>Cotton Fabrics</i> (million metres)		
	1938	1947	1948
India	3,930	3,450	3,960
China	940 ^a	770	860 ^b
Japan ^c	2,760	550	770

Source: *ECAFE Industrial Development Working Party Report, 1948*; *U.N. Monthly Bulletin of Statistics*, May, 1949; *Monthly Abstract of Statistics*, March, 1949, New Delhi.

^a Year 1936.

^b Estimate based on yarn production.

^c Data for Japan in million *square* meters.

The disorganization of the Japanese cotton textile industry is mainly responsible for the decline in the production of the AFE region as a whole. Even with the reduced plant, capacity production has not been attained. The main factors preventing greater production in Japan are, on the one hand, unavailability of adequate supplies of raw cotton from non-dollar sources and on the other hand the inability to sell greater amounts of textiles for dollars with which to procure raw cotton from dollar sources.

In China the cotton textile industry is concentrated around Shanghai where conditions since VJ day and up to the end of 1948 have been relatively quiet. Nevertheless short supplies of cotton, fuel and power have been obstacles to full utilization of capacity, and 1948 output of yarn was only about 85 per cent of prewar. At the end of the war the Japanese-owned textile mills were taken over and operated by the Chinese Government.

In India although production in 1948 was somewhat higher than either prewar or 1947, the wartime peak output was not reached. During 1948 there was a recession of communal troubles, labour disputes and absenteeism, but replacement of machinery, overworked during the war,

continued to fall short of needs. Efforts to introduce the wartime practice of three shifts were resisted both by the manufacturers, on account of high cost arising from slow arrival of replacement machinery, uncertain raw cotton supply situation, and coal and fuel shortage, and by the workers, on account of shortage of food and incentives and psychological factors. Inadequate replacement of worn-out machinery perhaps constitutes the biggest adverse factor in implementing any plan of increasing production; 40 per cent of the existing machinery is already due for replacement. Even for putting into effect an emergency three-shift system, it is estimated that machinery valued at Rs. 200 million would be required. Although an estimated over-all increase of 2 to 4 per cent in India's cloth production could be achieved by concentrating on a few varieties and lower yarn counts, manufacturers are hesitant to do so on account of the higher prices obtainable for finer counts.

Mill production of cotton cloth in 1948 was substantially higher than in 1947 in all three major producing countries of the region, but was only about three-quarters of the 1938 level. Only in India was the 1948 output as high as 1938, and the major drop in production took place in Japan. Figures on the production of cotton fabrics must be interpreted in full consideration of the facts that widths of fabrics and yarn counts are not uniform and that, particularly in China and to a lesser extent perhaps in India, there is an enormous amount of cottage weaving which does not appear in the statistics. For these reasons, data on cotton yarn production are a more reliable indicator of activity.

Production of cotton cloth in the region is concentrated in India, China and Japan. However, appreciable amounts are produced in other countries. For example, in 1948 Pakistan reported production of 82 million metres, Indochina 2.8 million, Indonesia 18 million, Philippines 11 million and Hong Kong 28 million.

Silk

In the development of the world's silk industry Japan has played a major role. Before the war, mulberry area accounted for about 10 per cent of its total cultivated land, and silk for 12 per cent of the total value of its agricultural products. In China, on the other hand, since 1928, civil warfare and Japanese invasion have resulted in extensive damage to the silk industry.

As raw silk production advanced in the region as a whole, commercial consumption of silk came to be concentrated in the high-income areas of the world. The United States was the principal consumer in the world silk market. Japan, with China second, was the main supplier to the United States, silk constituting about 40 per cent of its total exports up to 1930. However, during the 1930's the dominant share of silk in Japan's

exports declined sharply as a result of diminished demand and falling silk prices.

A significant factor in the decline in the United States consumption of silk from the 1929 peak was the progressive displacement of silk by synthetic fibres. Since the war, sales of silk in the United States market have been at very low levels, and prices have been lowered on several occasions. The degree of displacement of silk by synthetics is revealed by the fact that in 1946 the share of silk in the total output of women's hosiery in the United States was only 4 per cent as compared with 76 per cent in 1940.

Since 1940, the need for maximum food production led the Japanese Government to a drastic curtailment of mulberry area. Simultaneously cocoon production declined and a large-scale dismantling of reeling machinery was carried out. In China also the Japanese occupation authorities pursued a policy of uprooting the silk industry. It has been estimated that 63 per cent of reeling capacity in China was scrapped between 1943 and 1946, and cocoon production declined by 87 per cent.

Machinery

All the countries of the region have small-scale metal-working industries for fashioning tools and equipment and making repairs needed by local industries. All have railroad workshops and several have large ship repair facilities. However, the production of machinery on a large scale is carried on only in India, Japan and China. While political developments and shortages of steel and coal sharply reduced production in China, the year 1948 witnessed important advances in machinery production in India and Japan.

In India, primarily as a result of new capacity coming into operation, machinery production not only increased in 1948 but reached record levels for many items, e.g., all the items shown in table 23 with the exception of machine tools.

TABLE 23
Output of Selected Machinery Products in India

	<i>Unit</i>	<i>1947</i>	<i>1948</i>
Electric motors	H.P.	38,000	60,000
Transformers	K.V.A.	23,000	80,000
Electric fans	Units	160,000	180,000
Motor car batteries	Units	70,000	110,000
Diesel engines	Units	761	964
Machine tools	Units	1,400	1,690
Bicycles	Units	48,827	51,688

Source: *Conference of Central Advisory Council of Industries*, January 1949, New Delhi.

In Japan machinery production, as shown in table 24, also advanced generally over 1947 levels but remained well below prewar output. The increased supply of coal and steel was largely responsible for the gains; nevertheless a great part of total capacity cannot yet be utilized because of coal and steel shortages.

TABLE 24
Output of Selected Machinery Products in Japan
(in units)

	1947	1948
Machine tools	5,720	8,050
Railroad locomotives	168	36
Railroad freight cars	860	4,300
Sewing machines	79,300	179,000
Cotton textile looms	11,885	36,837
Bicycles	314,000	830,000
Motor trucks	9,300	15,800
Diesel engines	18,300	22,500
Steel coal mine cars	7,100	15,000

Source: *Japanese Economic Statistics*, January 1949.

Chemicals

In Asia and the Far East chemical production is concentrated in Japan. India has a growing chemical industry, and small quantities are produced in China. Although salt, a basic raw material, is produced in a number of countries in the region, both from evaporation of sea water and from mining deposits, inadequate coal supplies and electric power capacity, except in Japan, limit a rapid development of the chemical in-

TABLE 25
Chemical Production (selected items) in India and Japan
(tons)

	India	Japan
Paper and Paper Board...	99,765	472,000
Soap	190,000	11,600
Bleaching Powder	2,836	26,700
Liquid Chlorine	1,800	6,135
Soda Ash	28,200	75,000
Caustic Soda	4,383	107,000
Superphosphates	21,358	955,000
Sulphuric Acid	80,000	1,950,000
Alcohol	8.4 (mil.gals)	7.9 (mil.gals)

Source: *Conference of Central Advisory Council of Industries*, January 1949, New Delhi; *Japanese Economic Statistics*, Jan. 1949.

dustry. To illustrate fuel requirements, it may be noted that Japan's chemical industry in 1948 consumed 3.9 million tons of coal and 4,600 million kwh. of electric power.

Output in 1948 of several chemical products in India and Japan is shown in table 25. In India all these items were at record levels in 1948, except paper, alcohol and chlorine, and in all cases represented marked improvements over 1947 production. In Japan, 1948 production of chemicals was substantially greater than in 1947, but was only 25 per cent of the 1938 level.

In addition to the items shown in table 25, chemical production in Japan included a variety of other products, the most notable being ammonium sulphate, 1948 production of which was 945,000 tons (20 per cent nitrogen content), an increase of 31 per cent over 1947. Rayon production advanced by 100 per cent but reached only 13 per cent of the 1938 peak. Although weaving of rayon yarn is carried on in a number of countries of the region, Japan is the only producer of the yarns and fibres.

Salt, in a number of countries, including China, Siam, Burma, Ceylon, India and Japan, is produced on a large scale from the evaporation of sea water. Much of the salt supply of the region, however, is mined from salt deposits, China being the chief producer. India's total production in 1948 reached a record of 2,180,000 tons, but even so was insufficient for requirements. China is normally a net exporter of salt, and Siam also produces an export surplus.

Electric Power

Electric power capacity in the region is about 13 million kw. to serve a population of more than 1,100 million. Japan alone has twice as much generating capacity as the combined total of all other countries in the AFE region. Outside Japan, there is less than 4 kw. of capacity for each 1,000 people.

Table 27 gives estimates of electric power generation for several countries in 1948, and indicates a general improvement over 1947. In India, Japan and the Philippines generation was substantially greater than prewar.

War damage to plants and lack of fuel constitute the main limitations to full utilization of capacity. This is the case in Siam, for example, where in the absence of coal and oil, more rice husks and firewood are used for fuel than prewar. Power is rationed by shutting off current in certain areas for several hours during the daily peak periods of demand.

In China coal shortages and spreading civil warfare have dealt severe blows to the industry. In Shanghai, because of the growing shortage of

TABLE 26
Postwar Electric Power Capacity

	<i>Population (million)</i>	<i>(Thousands of KW)</i>	<i>KW (per thousand persons)</i>
Japan	78	8,539	109
India	332	1,362	4.10
China	461	1,332	2.88
Indonesia	69	350	5.07
Malaya	5.8	120	20.68
Philippines	19.5	108	5.53
Pakistan	72	75	1.02
Hong Kong	1.75	72	41.14
Indochina	27	46	1.70
Burma	17	30	1.76
Ceylon	6.9	21	3.04
Siam	17	16	0.94
TOTAL.....		12,271	

Source: *Report of ECAFE Industrial Development Working Party, 1948.*

coal, many boilers were converted to fuel oil burners. Supply of power in 1948 fell sharply behind industrial demand.

In the Philippines, there has been a marked improvement both in capacity and generation since the war, capacity increasing by 24,000 kw. The improvements were mainly due to the fact that after the liberation, vigorous steps were taken by the United States Army, the National Power Corporation, and by private enterprise to restore damaged power plants. The load growth, however, has increased to a phenomenal extent. For example, in the Manila area, the current demand is twice prewar in spite of the fact that there has been a suspension in the operation of electric

TABLE 27
*Generation of Electric Power
(million kw.)*

	<i>1938</i>	<i>1947</i>	<i>1948</i>
China	3,130 ^c	3,120	2,860
India	2,530	4,120	4,575
Pakistan	30,900	32,400	130
Japan	145	258	364
Philippines ^a	35 ^c	45	44

Source: *UN Monthly Bulletin of Statistics, Jan.-Feb. 1949; Replies to Questionnaires, ECAFE Industrial Development Working Party; Japanese Economic Statistics, Jan. 1949; information supplied by Governments.*

^a Manila only.

^b Bangkok only.

^c 1937.

street cars, that a large number of houses have been destroyed, and that many small factories are still not operating.

Substantial expansion in capacity and in generation has taken place in India since prewar. This expansion, which has averaged about 7 per cent per year, has been in both thermal and hydro plants. Coal and fuel oil shortages, however, continue to prevent full utilization of thermal capacity. Hydro plants account for slightly more than one-third of total capacity and generate about one-half of total power.

In Japan, where the bulk of capacity is hydro plants, and steam plants are used largely for standby purposes in the drier seasons, coal shortages have limited full utilization of thermal plants. However, inasmuch as generation and consumption of electric power are far ahead of general industrial production, and thermal capacity is only a small part of the total, electric power capacity and supply do not constitute a significant limitation to an expansion of economic activity.

The main immediate problem of other countries in the region is to replace worn-out and damaged machinery and to find adequate supplies of fuel. Requirements for electricity have been growing considerably and this has increased the pressure on existing capacity. Except in Japan, scarcity of electric power is an important deterring factor to industrial recovery and expansion.

GENERAL TRENDS BY COUNTRIES

India

During 1948 the most notable advances in industrial production in India took place in cotton textiles, India's largest industry. Yarn production rose from 603,000 to 654,000 tons between 1947 and 1948, an increase of 8 per cent, and an output of fabrics increased correspondingly.

According to an index prepared by the *Eastern Economist*, industrial production in India has shown the following course: Prewar (1938-39), 100; peak (1943-44), 127; 1947 (9 months rate), 104; 1948 (9 months rate), 115. The cotton textile industry, inasmuch as it carries 40 per cent of the weight of this index, largely determines the total level of activity. The gains in 1948 must be evaluated against the earlier postwar depression in production. Factors limiting more rapid recovery include raw cotton shortages, adjustments related to the political changes in India, and the need for replacement and expansion of machinery and equipment.

Production of pig-iron at 1.5 million tons and crude steel at 1.2 million tons remained approximately at 1947 levels. Transportation shortages constituted the principal limiting factor to higher output of

iron and steel, although the tight coal situation and labour disturbances also played an important part.

Coal production declined fractionally to 30.3 million tons from the 1947 peak output of 30.5 million tons. The most pressing limitation to expansion of coal output is the transport shortage. Moreover, since the railroads require a large proportion of the total coal supply, on account of the great distances which they cover, there is a relatively small amount left for industrial consumption. In 1948 the railroads consumed 30 per cent of the coal produced against 28 per cent for industrial uses (excluding electric power generation). Other factors affecting India's coal output were considered above in the section on coal.

Table 28 shows the 1947 and 1948 output of selected manufactured products, the increases of which all resulted from expansion in capacity.

TABLE 28
Output of Selected Manufactured Products in India

Item	Unit	1947	1948
<i>Machinery</i>			
Electric motors*	thousand hp.	38	60
Transformers*	thousand kva.	23	80
Diesel engines*	units	761	964
Machine tools	units	1400	1690
Bicycles*	thousand units	48.8	51.7
<i>Chemicals</i>			
Sulphuric acid*	thousand tons	60	80
Caustic soda*	thousand tons	3.3	4.4
Power alcohol*	million gallons	2.2	3.5
<i>Other</i>			
Paper and boards	thousand tons	93.1	99.7
Plywood	million square feet	28.6	38.6

Source: *Conference of Central Advisory Council of Industries*, Government of India, Jan. 1949.

* Indicates peak output for 1948.

Increased supplies of raw materials account for the increases shown below.

Item	Unit	1947 output	1948 output
Soap	thousand tons	80	190
Rayon fabrics	million metres	77.7	104.2
Soda ash	thousand tons	13.6	28.2
Superphosphates	thousand tons	5.0	21.3

Source: *Conference of Central Advisory Council of Industries*, Government of India, Jan. 1949.

The steady and marked expansion in the electric power industry continued during 1948, and power generation reached 4,575 million kwh., an increase of 11 per cent over 1947 and 81 per cent over 1938.

A comparison with previous peaks indicates somewhat depressed levels in 1948 for the principal basic industries:

	Per cent previous peak		Per cent previous peak
General index	91	Pig-iron	73
Coal	99	Cotton yarn	88
Steel ingots	88	Jute manufactures...	84

However, as noted above, for many machinery products and many chemicals, 1948 output exceeded that of any previous year.

There has been an appreciable increase in the import of capital equipment since 1947. Such imports have contributed to the increase in production and should make for further increases in the immediate future. The monthly average imports of certain capital goods and equipment in 1947 and 1948 are shown in table 29.

TABLE 29

Monthly Average Value of Selected Machinery Imports into India
(million rupees)*

Industry	1947 ^a	1948 ^b
Textile (incl. cotton & jute) machinery...	7.0	11.3
Electrical machinery	5.4	10.0
Machine tools	2.6	2.7
Oil crushing and refining machinery.....	0.6	0.6
Pumping machinery	1.1	1.4
Mining machinery	0.4	0.8
Paper making machinery	0.4	0.7

Source: *Conference of Central Advisory Council of Industries*, Government of India, January, 1949.

* 1947 averages based upon period April-November inclusive.

^b 1948 averages based upon period April-September inclusive.

China

The outstanding exception to the general improvement in industrial production in the region during 1948 was China, where the military and political situation resulted in economic deterioration. In the basic industries such as coal and steel, the low levels of output were little short of catastrophic. Cotton textile production declined from 1947 levels but stood at about 85 per cent of prewar output. Estimates of the production of several major commodities are shown in table 30.

TABLE 30

Estimated Production of Major Manufactured Products in China

Item	Unit	1947	1948
Coal	thousand tons	19,500	13,800
Electric power	million kwh	3,120	2,860
Cement	thousand tons	500	550
Cotton yarn	thousand tons	299	336
Steel	thousand tons	57	44
Tin in ore	thousand tons	4.1	4.9

While estimates of production in China vary widely, it is nevertheless clear that the mining and heavy industries were in a condition nearing collapse. Consequently those processing industries dependent on fuel, minerals and metals have been unable to operate effectively. The cotton textile industry, being centred in Shanghai and having obtained large quantities of raw cotton from abroad, has been able to operate at much less abnormal levels than other major industries.

Before the war, trade between Japan and China, especially North China and Manchuria, had attained large proportions, and the economies had become to a considerable degree interdependent. The collapse of that trade has had a severe impact on both countries, and has been a major factor retarding industrial recovery.

The expansion of the military arena during 1948 further disrupted the transportation system with the result that the flow of goods and materials from one area to another declined. The galloping inflation was another major obstacle to recovery (see chapter XI).

Japan

The greatest increase in production during 1948 in Asia and the Far East was achieved in Japan. Having a relatively great capacity lying idle for want of fuel and raw materials, Japan's industrial economy responded quickly to increased supplies of coal, iron-ore and several other basic materials.

While the over-all index of industrial production during the year advanced by 43 per cent, manufacturing industries other than textiles increased production by 56 per cent. This sharp advance was led by the iron and steel industry as a result of increased supplies of coal and iron ore. The greater supply of coal and of iron and steel brought about substantial increases in the machinery and metal products industries generally. The fact that coal is the life blood of modern industry was amply demonstrated in Japan in 1948.

Stimulated by a series of top priority programmes laid down by the control authorities to rehabilitate the coal mines, coal production in 1948

reached 33.7 million tons, or 24 per cent above 1947 output. In addition, although exports rose from 815,000 to 1,190,000 tons, coal and coke imports rose from 33,000 to 1,170,000 tons (mainly from the United States and Canada). Thus the net supply in 1948 was about 27 per cent greater than in 1947. Through a rigorous allocation programme, more than half the increased supply was channelled to manufacturing industries other than textiles, so that they received 12.2 million tons in 1948 against 8.45 million tons in 1947.

The iron and steel industry received the lion's share of the increased coal supply. With respect to iron-ore, although domestic production advanced only 8 per cent to 535,000 tons, supplies were supplemented by imports of 550,000 tons (mainly from stockpiles in south China) which compared with no imports at all in 1947. The greater supplies of coal and iron ore not only resulted in more efficient operation of the industry per unit of fuel, but also in an advance of pig iron output from 360,000 tons in 1947 to 805,000 tons in 1948, while crude steel output rose from 936,000 tons in 1947 and to 1,705,000 tons in 1948. (Scrap consumption by the industry rose from 1,020,000 tons in 1947 to 1,553,000 tons in 1948).

Greater supplies of iron and steel, as well as coal, brought about an estimated increase of 75 per cent in the output of machinery. Other main industries benefiting directly from the increased coal supply were ceramics and chemical fertilizers. For example, cement production increased by 600,000 tons or 48 per cent, and ammonium sulphate production advanced by 31 per cent.

Some advances in textile output occurred during 1948. Cotton fabrics advanced from 550 million square metres to 770 million square metres, but this was due mainly to delayed production of fabrics from 1947 on account of the time lag between the spinning of yarn and weaving of fabric. Cotton yarn production in 1948 at 125,000 tons was only 2 per cent higher than in 1947.

Production of rayon yarn of 16,780 tons and staple fibre of 15,900 tons exceeded 1947 output by 136 per cent and 83 per cent respectively, principally as a result of increased supplies of pulp and imports of salt for manufacture of caustic soda. Production of raw silk increased by 21 per cent to 670 tons.

Generation of electric power by the public utilities increased from 29,400 million to 31,700 million kwh.¹

¹ The totals shown in table 27 are of power generated by public utilities and other sources.

Of the increase, 900 million kwh. resulted from the increased allocation of coal to thermal plants. Inasmuch as an additional million tons of coal were required to increase the power supply by only 3 per cent, the value of the allocation may be open to question. Commercial and industrial consumption in 1948 was estimated at 75 per cent and residential consumption at 24 per cent of total consumption.

Japan's progress in 1948 has been impressive, but when compared with prewar levels, it is clear that the Japanese industrial economy has a long way to go toward recovery or full utilization of capacity within the limits laid down by the Far Eastern Commission. The general index of output of major industries, with 1938 as base, stood at 31 in 1948; the production index for coal and ammonium sulphate however stood at higher levels, i.e., 69 and 85 per cent respectively.

Maintenance of the rate of recovery in Japan is contingent mainly upon continuing increases in domestic coal production and in imports of basic raw materials such as iron ore, coking coal, petroleum products, raw cotton, wood pulp, salt and other ores and metals.

Burma

Before the war, Burma was the largest producer in the region of lead and zinc and the second largest producer of petroleum. Most of Burma's lead and zinc resources are concentrated in the rich Bawdwin mine near Lashio while tin and wolfram come from a number of smaller mines in the southern peninsula. Wartime destruction of the mines and wells was so thorough, postwar conditions so unsettled, and shortage of capital goods so acute, that little recovery in production has yet been achieved. The great destruction suffered by the rail and water transport systems has also been a limiting factor. In 1948, production of lead, zinc and petroleum was only a fraction of prewar; however, it is reported that progress was made in the rehabilitation of machinery and equipment in the oil fields.

There has been some degree of recovery in the production of tin and wolfram, although rates of output are only about 20 to 30 per cent of prewar.

As in most countries of the region, handicraft industries constitute an important part of Burma's economy. Considerable progress is reported during 1948 in the output of these industries especially in cotton textiles.

Indochina

Indochina's industrial production in 1948 registered marked improvements in several lines over 1947 levels, especially in the northern area. Progress in the reconstruction of industrial plant was the primary

factor in the improvement of production. Civil unrest and disturbances and shortage of fuel and power, however, continued to be major obstacles to more rapid recovery.

Shortage of man-power and mine supplies as well as unfavourable weather prevented a greater output of coal, although installation of new equipment and repair work proceeded satisfactorily. Production of 339,000 tons was 36 per cent more than in 1947 but represented only 15 per cent of 1938 output. Estimates place 1949 output at 420,000 tons.

Cement production of 97,000 tons compared favourably with the 1947 figure of 40,000 tons but remained below the prewar level of 266,000 tons. Production in 1949 is expected to be about 150,000 tons. Shortages of fuel and power and occasional fighting in the area of the limestone quarries limit a greater volume of production.

Production of alcohol, soap, glass bottles, beer, ice, oxygen, acetylene, and carbonic acid was substantially increased over 1947 levels but did not approach prewar output. With improved supplies of lumber and cement, new building construction continued to increase.

Salt production of 64,000 tons showed a substantial improvement over the 1947 output of 41,566 tons, the entire increase occurring in South Annam, but was less than 4 per cent of prewar. Similarly there was improvement in cotton textile production, but output was only a fraction of prewar.

Many important sectors of the mining industry continued to be inactive, particularly tin, tungsten, manganese, iron-ore, and phosphate rock.

Pakistan

Statistics on Pakistan's industrial activity for the years before 1948 are included in India's statistics, and it is difficult to make an appropriate breakdown of the latter. Industrially, Pakistan remains undeveloped although many basic raw materials are produced or can be produced in abundance. Pakistan produces, for example, large quantities of raw jute, raw cotton, raw wool, salt, sugar cane, gypsum, limestone, hides and skins, and oil seeds.

In 1948, production of coal was 279,000 tons, cement 334,000 tons, cotton yarn 10,886 tons, cotton cloth 82 million metres, and of crude petroleum 46,000 tons, while electric power generation amounted to 130 million kwh.

Cottage industries form a substantial part of the economy, providing much more employment than do the large-scale industries. The export of large quantities of raw materials provides Pakistan with foreign exchange for industrial development purposes but there is a need for technical per-

sonnel. Plans are under way for industrial expansion, especially of the textile industry (including jute manufactures), hydroelectric projects, and production of industrial chemicals.

Indonesia

Substantial progress in industrial rehabilitation took place in Indonesia during 1948; in this, ECA funds allocated to Indonesia played an important part. On the other hand, continuing political difficulties acted as a brake on recovery.

Rehabilitation of the tin mining industry proceeded to the extent that 1948 output equalled the prewar level and was almost double that of 1947. Petroleum production also advanced impressively but remained well below prewar. Production of bauxite increased five-fold over 1947 and exceeded prewar levels. Electric energy generation rose to half the prewar level, an increase of 50 per cent over 1947. The transportation system was also improved during the year, particularly in respect of inter-island and coastwise shipping.

Shortage of coal and electric power, however, continues to retard a more rapid rate of recovery in many of the smaller scale industries, e.g., metal working and textiles. A number of such industries which rely heavily on imported raw materials, are not yet operating at full capacity because of foreign exchange shortage.

Philippines

Recovery in the Philippines continued during 1948, bulwarked by large dollar expenditure by the United States. Lumber production reached prewar levels, advancing by 40 per cent over 1947. Electric power generation (Manila only) was 40 per cent higher than in 1947 and more than double prewar. Coal production, estimated at 88,000 tons, exceeded prewar levels by more than 25 per cent. Much slower recovery was achieved in other branches of the mining industry. Iron-ore production, which exceeded 900,000 tons prewar, was insignificant. Gold output of 200,000 ounces was only about 20 per cent of prewar. Copper and manganese likewise were at relatively low levels. Nevertheless, the mining industry showed marked advances over 1947.

Cotton textile production registered improvement but continued to be well below requirements. Restoration of road and water transportation was almost completed, but the railroads continued to operate below prewar capacity.

The longshoremen's strike in the United States, tying up ocean-going vessels for several months, made an adverse effect on Philippines industry. A number of labour disputes, mainly over wages and the cost of living, had a depressing effect on production.

As a result of severe war damage, especially in Manila, there is still an acute demand for new building construction. Consequently, during 1948, with the availability of ample funds and increased supplies of cement and lumber, building construction assumed boom proportions.

Malaya

Before the war, Malaya was the world's largest producer of tin, accounting for about one-third of the total supply. During the war the industry suffered extraordinary damage. Since the end of the war special efforts have been put forth to rehabilitate the mines, and great progress has been made in the installation of machinery and in repairs. Production of tin in ore in 1948 of 45,700 tons slightly exceeded 1938 output, was 167 per cent of 1947, and 54 per cent of the record 1940 output.

In contrast, small progress has been registered in the rehabilitation of the iron-ore mines. Production was less than one thousand tons in 1948 against 1.7 million tons prewar.

Coal, most of which is consumed by the railroads, showed a notable increase in 1948. Production of 375,000 tons was 166 per cent of 1947 and 72 per cent of prewar.

Tin metal production increased from 30,000 tons in 1947 to 50,000 tons in 1948, but was still less than half the record output of 1940.

Malaya's manufacturing industries, apart from tin smelting and edible oils, are mainly of a small-scale character, producing principally for local needs. In general these industries made further progress during 1948.

Siam

Industrial expansion in Siam is hampered by fuel shortages. The electric power capacity in Bangkok, damaged severely in the war, has not yet been rehabilitated, and power supply is totally inadequate. Plans for hydroelectric development are being pushed forward but realization will take some considerable time. The railroads consume a great quantity of wood fuel, and domestic cooking and heating depend largely on charcoal. As a consequence of the large consumption of wood for fuel, the forest areas are being denuded.

Tin production increased in 1948 to 4,300 tons in contrast with 1,400 tons in 1947 but was only 30 per cent of the prewar output. The tin mines are still in need of substantial rehabilitation and replacement of machinery and equipment. Cement production in 1948 which amounted to 84,000 tons, was 42 per cent more than in 1947 and only 16 per cent less than the prewar average.

The increasing production and export of rice and, with it, Siam's increasingly favourable balance of payments position, indicate a further

improvement in industrial activity during 1949. Vigorous steps are being taken to improve the transportation system. Expansion of electric power capacity is under way, and the textile industry is being enlarged.

Problems of Industrial Recovery

The devastation and economic consequences of the war left the region in a condition little short of collapse. The low levels of production and trade contributed to the continuing political disturbances and unrest in many areas, and these in turn constituted a major obstacle to recovery.

A smaller total production of food than prewar, coupled with a growing population, have changed the region from a net exporter to a net importer of food. This change, together with lower production of several important export and other products, declining world demand for several principal export products, and limited credit resources, has combined to make the foreign exchange problem extraordinarily acute and to restrict the funds available for importing goods and materials for reconstruction and recovery. The collapse of trade with Japan has also been a significant factor.

The principal shortages of producer and capital goods which limit a more rapid recovery in production include agricultural requisites, rolling stock, mining machinery, equipment and parts, petroleum, raw cotton, wood and wood pulp, coal, iron ore and steel.

Greater supplies of agricultural requisites would facilitate an improvement in food production. The needs for these requisites were described in chapter IV. In particular, the potential requirements for chemical fertilizers are enormous. While a great amount of experimentation and instruction in utilization are necessary, the vast man-power resources, the small scale of agricultural units, and the ever-increasing need to maximize yields, are all factors favouring increased use of fertilizers. This calls for an expansion of the region's capacity to produce fertilizers and an increase in its production of fertilizer materials, especially coal.

With an expansion of food output, and especially with an expanded yield per unit of area, more resources could be devoted to the production of raw cotton. The region's supplies are far below requirements, and current imports, limited by shortages of foreign exchange, fail to fill the gap. Consequently, second only to food, cotton textiles constitute the principal shortage among consumer goods. Not only must raw cotton supplies be increased, but spinning and weaving capacity must be substantially enlarged both in order to render the region less dependent on foreign sources and to raise cotton textile consumption to more adequate levels. The textile industry is admirably suited to the natural advantages of the region.

With a more rapid rehabilitation of oil wells and mines, mainly through the repair of existing equipment and the installation of new equipment, greater production and export of mineral products would be possible. However, for most producing countries in the region, imports of machinery and equipment and foreign technicians are a pre-requisite.

The railroads have suffered heavily from war damage and inadequate maintenance and replacement. The most acute need is for locomotives. Wagons and passenger cars are also inadequate in numbers, and many need repairs. In India, particularly, a substantial expansion in industrial production cannot be achieved without corresponding expansion of the railroads, especially rolling-stock.

In view of the general deterioration in its trading position (see chapters XII and XIII), the region should attempt to meet its needs for steel products, machinery and equipment from its own production to the greatest extent practicable. The basic materials needed are coal and iron ore, both of which are in abundance in parts of the region although current production is low. To expand output of coal and iron ore and to produce more steel are fundamental to economic recovery and expansion.

Inasmuch as the region's capacity to produce steel and machinery is currently concentrated in India, China and Japan, most countries of the region must import either from these three countries or from outside the region. India and China, however, except for a few items, have insufficient capacity to meet their own needs.

A significant factor affecting the course of recovery and expansion in the region relates to the utilization of Japan's capacity to produce steel and machinery. The characteristics of the prewar Japanese economy were, broadly, the import of food and raw materials, particularly raw cotton, the export chiefly of silk and cotton textiles, and the large-scale production of steel and machinery for use within the Japanese Empire. Currently and by contrast the picture is one of a need for even greater food imports coupled with a catastrophic decline in silk and cotton textile exports. Japan may, therefore, have to turn to the export of steel and machinery, no longer needed either for extraordinary expansion of domestic capacity or for supplying a war machine, in order to balance its international accounts. Such a development has been, however, impeded by a number of factors, notably the following:

(a) There is, for one reason or another, reluctance among countries of the region to renew trade with Japan. These reasons include the strong feelings generated by aggression, the fear of a resurgent Japan, the desire to take over markets once supplied by Japan, and the increasing availability of supplies from other parts of the world.

- (b) There is at present little surplus food available in the region for exchange against Japanese steel products and machinery.
- (c) Raw material exports to Japan, especially iron-ore, coal, petroleum, and other mineral products are at low level.
- (d) Credit facilities are extremely limited, and all trade arrangements involve frequent periodic balancing of accounts in hard currencies.

More than three years after the end of the war, the reparations picture is still clouded with uncertainty. Only small quantities of reparations items have actually been shipped, and these have been chiefly machine tools from army and navy arsenals. Tentative reparation proposals by the United States War Navy Coordinating Committee included a considerable amount of capital plant and equipment, notably capacity for annual production of 2.9 million tons of steel ingots. Early in 1948, however, a firm of American Engineers, Overseas Consultants Inc., after a detailed investigation, recommended against the removal of any steel capacity, and proposed a general scaling-down of the reparations proposals, on the basis that such removal would injure world production, would be uneconomical and would not be in the best interest of the claimant nations. While the outcome is still obscure, it is becoming increasingly doubtful whether reparations from Japan will make any early or important contribution to recovery and expansion in the region.

Increased output of staple exports in face of declining or uncertain world demand will not solve the region's foreign exchange problems. It is more urgent to take the necessary steps, including the import of machinery and equipment, to increase production of such things as food, petroleum, raw cotton, coal, steel, and machinery, the import of which currently calls for large outlay of hard currency.

CHAPTER VI

Transportation

In most of the countries of the region, the railroads carry the bulk of internal traffic, both passenger and freight. Inland waterways and coastal shipping also carry a substantial part. Highway traffic is relatively small; so also is civil aviation, although developing at a phenomenal rate.

The war resulted in great destruction of both railroads and ships. Intense utilization and inadequate replacement and maintenance characterized the transport systems of all countries of the region. Since the end of the war, substantial recovery has been achieved but inadequate transport facilities continue to limit economic expansion. Although there is production of wooden vessels throughout the region, there is, except in Japan, little capacity to produce the larger vessels, vehicles, rolling-stock, etc., and consequently recovery and expansion of transport systems must rely largely on imports from Europe and America.

RAILWAY TRANSPORT

Railway track

All countries of the region, except India, Pakistan and Ceylon, suffered severe physical damage to their rail transport system during the war. These countries have since been attempting to restore their railroads, but even in China, where UNRRA and post-UNRRA aid provided substantial equipment and materials and technical expert services, rehabilitation has been slow. Unsettled political conditions have frequently interrupted rehabilitation work, particularly in Burma and China. Civil disturbance has also caused actual destruction of repaired sections of lines. In Siam, the Philippines and Malaya, shortages of materials, equipment and technical personnel have been the main obstacles to adequate restoration of capacity.

Table 31 shows that, in general, over three years after the end of the war, prewar lines have not been fully restored. Even the present degree of restoration has often been of a temporary character; for example, where lines and bridges have been partially rebuilt in order to allow traffic to move. As a result, there are constant breakdowns and interrup-

TABLE 31
Length of Railway Lines (in kilometres)

	1938	1947-48
Burma	3,301	2,486
Ceylon	1,468	1,468
China*	11,604	8,507
Hong Kong	36	36
India	66,185	54,500
Pakistan		10,750
Indochina	3,016	1,236
Indonesia	7,400	7,400
Japan	24,441	25,678
Malaya	1,718	1,281
Philippines	1,141	868
Siam	3,210	3,274
TOTAL.....	123,520	117,484

Source: Replies to Questionnaires, ECAFE Industrial Development Working Party; information supplied by Governments.

* Excluding Manchuria and Taiwan.

tions. Shortages of rails, accessories, steel, cement and other fixed installations prevent rapid rehabilitation of lines. There is a general shortage of iron and steel, both from local and regional sources as well as from outside the region, so that the manufacturing capacity in India, China and Japan and local workshop facilities cannot be fully utilized. Railway engineering workshops, for lack of replacement of tools, equipment, accessories and parts, are heavily overburdened.

On account of civil war, China had to abandon much repair and reconstruction work on lines and bridges in North China and later in Central China. Although ECA grants of US\$15 million were made in 1948 for the rehabilitation of Canton-Hankow, Chekiang-Kiangsi, Peiping-Tientsin and Taiwan railways, some of these projects have been interrupted or delayed. In Indochina, where the permanent way has been severely damaged, trains must run very slowly; civil unrest is seriously hampering rail rehabilitation and causing constant interruptions and damage to the lines. The line from Haiphong to South-west China, which used to carry considerable traffic, is virtually out of use. In Burma and Siam also the rate of rehabilitation is slow. In Malaya about 75 per cent of the prewar route mileage is now open to traffic.

In India and Pakistan, lines have been kept more or less intact, although overworking has created urgent demand for rails, accessories, structural steel, etc. The burden of maintenance has been further increased by great movements of refugees and by strikes. During 1948 the two countries agreed to co-ordinate the use of their workshop facilities.

Rolling Stock

The over-all rolling stock position continues inadequate for the needs of the region, particularly in view of the decline in inland coastal water-craft capacity and the deterioration of road vehicles. Except in Japan, rehabilitation and restoration of rolling stock is primarily dependent on imported locomotives, wagons, coaches and accessories. Japan's capacity to produce these is still under-utilized, but its ability to meet in part the demands of Asian countries depends on resumption of trade. Foreign exchange shortage restricts imports from this and other sources.

Needs for maintenance of existing rolling stock have increased considerably on account of the over-age of vehicles now in use. About one-third of the locomotives in India are 35 years or more in age. In other countries the percentage of over-age locomotives is high, varying from 12 to 25 per cent. The percentage of over-age passenger and freight cars is also higher than prewar.

The work of maintaining existing rolling-stock is partly dependent on the quality and volume of services rendered by the railway and engineering workshops, which themselves suffered considerable damage and over-work during the war. The present inadequacy of machines and machine tools and of skilled labour seriously handicaps normal servicing by the shops. The time involved in servicing and repairing is greater and the breakdown of rolling-stock is more frequent. Shortage of imported spare parts and accessories results in rolling-stock being kept in use which would ordinarily be sent for repair.

TABLE 32
Number of Locomotives in use

	1938	1947-48
Burma	360	271
China*	1,339	2,171
Ceylon	249	258
Hong Kong	17	17
India	8,985	7,600
Pakistan		1,247
Indochina	210	122
Indonesia	1,004	..
Japan	4,735	6,283
Malaya	173	225
Philippines	178	90
Siam	207	335
TOTAL.....	17,457	18,619

Source: Replies to Questionnaires, ECAFE Industrial Development Working Party; information supplied by Governments.

* Excluding Manchuria and Taiwan.

Table 32 on page 97 shows that the number of locomotives is below prewar in several countries of the region including Burma, India and Pakistan, Indochina, and the Philippines. Increases are reported by China, Ceylon, Malaya, Siam and Japan. For the AFE region as a whole, the numbers have increased because of the substantial increases in China and Japan.

Table 33 indicates that the number of freight wagons in the region has increased because of substantial increases in China, Japan, India and Pakistan, Indochina and Siam. Countries reporting decreases include Burma, Hong Kong, Malaya and the Philippines. The number of passenger cars in the region has declined except in China.

TABLE 33
Number of Passenger and Freight Cars

	<i>Passenger cars</i>		<i>Freight cars</i>	
	1938	1947-48	1938	1947-48
Burma	893	293	9,084	7,971
Ceylon	839	790	2,739	2,769
China*	2,476	4,172	17,294	37,283
Hong Kong	44	17	134	48
India	26,335	14,580	221,509	196,530
Pakistan		4,000		36,664
Indochina	438	205	2,123	2,296
Indonesia	2,866	..	22,959	..
Japan	12,286	11,709	87,373	107,716
Malaya .....	..	199	5,000	3,884
Philippines	397	310	2,427	2,088
Siam	322	296	3,812	5,392
TOTAL	46,896	36,551	374,454	402,641

Source: Replies to Questionnaires, ECAFE Industrial Development Working Party; information supplied by Governments.

* Excluding Manchuria and Taiwan.

Railway Traffic

In Malaya, passenger traffic is currently one-third of the 1939 level. In Burma, Indochina and the Philippines, it is also reported to be less than prewar. On the other hand, in many countries, particularly India and Pakistan, Siam, China and Japan, pressure of passenger traffic has increased very considerably. In India and Japan, for example, while the average length of trip per passenger shows little change, the numbers carried have increased by 100 and 150 per cent respectively.

Except in Malaya, where there has been an increase of 5 per cent in freight ton-miles over 1939, and in India, where there has been an increase of about 18 per cent, freight traffic is generally below prewar levels.

In Burma, freight traffic in 1948 was only 47 per cent of prewar. In China freight ton-kilometres in 1947 were somewhat less than prewar, and in Siam freight ton-kilometres in 1947 were only 30 per cent of prewar. The transportation bottlenecks and inadequacies are important factors in the current low levels of exports of rice from the surplus countries of South-east Asia—Burma, Siam and Indochina.

A comparison of the railway situation and the operational results in Japan and India, which together account for over two-thirds of the total railroad capacity in the region, is instructive. Currently the railroads are bearing the principal burden of transportation both in India and in Japan, whereas before the war, in the case of Japan, coastwise shipping was a major part of the freight transport system. Nevertheless, the transportation problem is more acute in India than in Japan, and constitutes more of a limiting factor to expansion of industrial production. Although the railroad system is larger in India, the distances also are much greater as shown by the following figures of track and rolling stock:

	India	Japan
Kilometres of track.....	54,500	25,678
Number of locomotives	7,600	6,283
Number of passenger coaches	14,580	11,709
Number of wagons	196,530	107,716

The Japanese system is currently carrying an average of 8.7 million tons of freight per month against 7.7 million tons in India. Passengers carried in Japan are 270 million per month, compared with 85 million in India. However, Indian railroads carry the average passenger 50 kilometres against 26.5 kilometres in Japan, and the average haul per ton of freight in India is 322 kilometres, against 201 kilometres in Japan. The greater distances offset the smaller number of passengers and quantity of freight tonnage, and place an acute strain on India's relatively small number of locomotives. They are also the reason why India's railroads used 8.8 million tons of coal in 1948 in comparison with the 7.4 million tons used by Japan's railroads. Railroad coal consumption was 30 per cent of the total supply in India and 22 per cent of that in Japan.

WATER TRANSPORT

From the incomplete statistics available, it seems that, except in countries which continued to be affected by civil disturbances, water transport for both foreign and domestic trade showed an increase in 1948 as compared with 1947, but was still much below prewar.

The average monthly entrances and clearances of vessels with cargo in foreign trade for the seven countries shown in table 34 increased by 21 per cent over 1947, but was still 35 per cent below the prewar level.

TABLE 34

*Monthly Entrances and Clearances of Vessels with Cargo
in External Trade*
(thousand net registered tons)

	<i>Prewar</i> Entered	Cleared	Entered	1947 Cleared	Entered	1948 ^b Cleared	
Ceylon	891	868	331	312	470	470	(Jan.-Nov.)
China	1,480	1,473	838	831	905	909	(Jan.-Dec.)
Hong Kong .....	..	..	188	71	186	85	(Jan.-Oct.)
India ^c	753	792	517	476	674	535	(April)
Indochina .....	..	301	..	107	..	123	(Jan.-Oct.)
Malaya ^d	1,354	1,308	789	699	946	894	(Jan.-Oct.)
Siam	70	85	43	50	68	92	(Jan.-Sep.)
TOTAL	4,548	4,827	2,706	2,546	3,249	3,108	(Jan.-Nov.)

Source: *United Nations Monthly Bulletin of Statistics*, January-February, 1949; *The Trade of China*, 1937, Vol. I; *Monthly Returns of Foreign Trade of China*, December, 1947, December, 1948; *Far Eastern Economic Review*, Nov. 17, 1948.

^a Prewar years refer to 1937 for Ceylon, China, India and Siam, and 1938 for Indochina and Malaya.

^b Refers to average of months during the year as indicated in parentheses at right hand side.

^c For prewar, covers Undivided India; for 1947 and 1948 refers to Indian Union. 1947 figures relate to the four months from August to November, as those for the remaining four months December to March are not available.

^d Covers the Federation of Malaya and Singapore.

Water-borne cargo traffic in domestic trade—coastwise, interinsular, or river—generally showed signs of increase in 1948 as compared with 1947.

In China the distance covered by river lines for steam vessels increased from 39,480 kilometres in 1947 to 52,180 in 1948, and the tonnage of vessels from 1.04 million to 1.13 million tons. However, on account of civil war and the diversion of shipping to military operations, the volume of traffic remained more or less unchanged. Passenger traffic averaged 294 million passenger-kilometres monthly in 1948 (9 months), as compared with 290 million in 1947, while goods traffic averaged 1,106 million ton-kilometres monthly as compared with 962 million in 1947. There was little variation in the volume of traffic until September, when a spectacular drop took place. As compared with the preceding month, September cargo traffic was only one-third, and passenger traffic only two-fifths.

In Burma, inland water craft used to carry more freight, though fewer passengers, than railways. Three-fifths of the gross tonnage of vessels, however, was lost during the war, and in 1947 gross tonnage

amounted to 47,480. In 1948, gross tonnage was further reduced to 45,940. On 1 June, 1948, the Inland Water Transport Board was established to nationalize all enterprises in the field. It took over the operations of the Irrawaddy Flotilla Company which, before the war, had handled practically all public carrier traffic in Burma, and which since 26 January, 1946 had undertaken operations on behalf of the Government, reportedly at a loss.

Of countries whose shipping in domestic trade increased in 1948, Japan was the most notable example. The average monthly cargo shipment in coastal trade carried in Japanese-owned vessels increased to 3.6 million tons in 1948 from a total of 2.4 million tons in 1947 and only 1.5 million tons in 1946.

In India, except in a few cases, inland water transport is of minor importance, its goods traffic in terms of ton-kilometres being only one per cent of that of the railways. The partition of India and Pakistan poses certain problems of water transport in the Ganges-Bramaputra delta which may find their solution in some sort of an international river system agreement.

In Indonesia, half the inter-island fleet was lost during the war. Replacement by suitable types of ship will be necessary and it is reported that large orders for these have been placed by private shipping companies. The inter-insula shipping freight was reported to have increased from 279,900 tons for the first quarter of 1947 to 510,600 tons for the first quarter of 1948; during the second quarter, it rose further to 640,700 tons.

In Malaya, total tonnage of merchant vessels of over 75 tons, with cargo arriving and departing at the ports of Singapore, Periāng, Malacca and Port Dickson, Port Swettenham and Tumpat (Kelantan), increased from 41,000 in October 1947 to 60,000 in October 1948.

The inland water craft tonnage in the Philippines increased from 157,000 in 1947 to 278,000 in 1948. In Indochina, the prewar fleet of 373,000 tons, mostly wooden craft, increased to 422,000 tons in 1948.

ROAD TRANSPORT

As compared with prewar, available postwar data point to an increase in the length of highways of all types in India and Pakistan, Ceylon, China, the Philippines and Siam, and a decrease in Burma, Indochina and Japan. China built a number of new highways during the war to meet emergency needs after railways and waterways had been occupied by the Japanese. New roads have been built, since the war, in Ceylon, India and Pakistan, the Philippines, and Siam. On the other hand, owing to postwar disturbances in Burma and Indochina and to lack

TABLE 35

Length of highways (in kilometres)

<i>Country</i>	<i>Prewar</i>	<i>1947</i>	<i>1948</i>
Burma	27,463	13,409	..
Ceylon	5,603	6,417	10,242
China	109,000	131,466	131,912
Hong Kong .....	..	644	624
India/Pakistan	302,883	303,142 ^a	306,631 ^c
Indochina	27,750	26,000	..
Indonesia	65,000	..	..
Japan	939,593	919,621	..
Korea, South .....	..	14,267	..
Malaya			
Federation of Malaya	..	10,444 ^b	..
Singapore .....	..	449	..
Philippines	19,175	24,659	23,850
Siam	4,466	6,280 ^d	..

Source: Replies to ECAFE Questionnaires; *Economic Survey of Asia and the Far East, 1947*; information supplied by Governments.

^a Refers to the year ended 31 March 1944.

^b Refers to length covered by omnibus service. Equivalent figure for 1946 is 8,047 kilometres.

^c India only.

^d Refers to 1946.

^a Prewar years refer to 1937 for China and India, 1938 for Burma, Indonesia, and the Philippines, and 1939 for Ceylon, Japan and Siam.

of building materials in Japan, the highways in these countries were reduced in length. (See table 35.)

The number of registered motor vehicles showed a decrease of about 2 per cent compared with prewar owing to wartime losses and postwar foreign exchange shortage, and in spite of supplies to certain countries in the region through UNRRA, ECA, SCAP and other sources. Numbers increased in Ceylon, India and Pakistan, Malaya, the Philippines and Japan, but decreased in China, Indochina and Indonesia. The AFE region as a whole has a total of slightly more than half a million registered vehicles distributed as follows: India and Pakistan 153,300; Japan 129,500; Philippines 73,600; China 56,000; Malaya 41,800; Ceylon 33,900; Indonesia 24,600, Hong Kong 6,600, and Indochina 1,700 (see table 36).

Before the war, commercial vehicles constituted only about 39 per cent of the total, whereas currently they represent about 54 per cent.

TABLE 36
Number of Registered Motor Vehicles

Country	Prewar ^a	Passenger cars ^a		Prewar	Commercial vehicles ^b	
		1947	1948		1947	1948
Ceylon	20,181	22,927		7,045	10,938	..
China	46,980	20,374		17,655	35,650 ^c	..
Hong Kong .....	..	4,309		..	2,338	..
India ^c	91,782	113,172 ^c		37,344	40,107 ^c	..
Pakistan ^c			20,966		..	3,764
Indochina .....	..	738		..	985	..
Indonesia ^c	48,014	12,500 ^d		20,408	12,136 ^d	..
Japan ^c	35,170	19,985	21,303	77,846	89,135	108,214
Korea	5,047	3,498 ^c		3,947	9,955 ^c	..
Malaya						
Federation						
of Malaya...	20,452	15,612		6,524	12,627	..
Singapore ...	11,028	8,000		2,836	5,520	..
Philippines	34,000	21,966	28,823	21,200	38,244	44,789
Siam	4,447	..		4,684	..	..

Source: Replies to ECAFE Questionnaires; *United Nations Statistical Yearbook 1948* (In press); *Economic Survey of Asia and the Far East 1947*; *Statistical Yearbook of the Republic of China, June 1948*; information supplied by Governments.

^a Passenger cars of seating capacity of not more than seven persons including taxis but excluding buses, two and three-wheeled motorcycles and vehicles operated by the military.

^b Including light and heavy lorries, tractor-trailers and buses, but excluding light railers for passenger cars, tricycles, farm and road tractors, ambulances and service vehicles operated by a Governmental authority.

^c Prewar and 1946-47 figures for Pakistan are included under India.

^d Refers to regions under control of Netherlands Government only.

^e Refers to Undivided India.

^f For the financial year ended 30 March 1947.

^g Refers to standard size vehicles.

^a Prewar year refers to 1937 for Ceylon, China, Indonesia, Japan, Korea and Siam; 1939 for India, Indochina and Singapore; and 1940 for the Malayan Federation.

AIR TRANSPORT

Conditions in the region tend to favour development of air transport. Surface transport is relatively undeveloped and in many cases disrupted, distances are great, and the terrain is in many places so difficult as to render surface transport prohibitively slow and expensive. The capital cost of instituting air services, at least with the smaller types of transport aircraft, is far less than that of establishing surface transport systems. On the other hand, technical requirements for personnel, flight equipment and ground installations are exacting.

The ability of air transport to compete as a regular carrier of passengers and mail, even against well-developed forms of surface transport,

has already been demonstrated throughout the world. Its ability to compete as a carrier of freight depends on special circumstances, among which difficulties of terrain are important. Where a destination is difficult of access by reason of mountainous or other features, it may often be found that air transport is an even cheaper means of carriage than primitive surface transport.

Table 37 indicates the development of air transport in five countries of the region. The figures relate, in general, only to scheduled air services of civil airlines registered in the countries concerned. In drawing conclusions from these figures, it must be remembered, first, that in the Far East, as in other parts of the world, there has recently been a considerable development of non-scheduled charter and contract air services; second, that most air services in the region were operated on a military or semi-military basis during the war, and that some are still being so operated; third, that much of the air transport in the area is provided by airlines based outside the area. These reservations, added to the unsettled condition of most countries in the region, make it difficult to draw reliable conclusions from the figures. Some idea of the potential development of air transport in the Far East may, however, be obtained by comparing the figures for 1937 and 1947. For example, in China, India and the

TABLE 37
Distances Flown by Scheduled Airlines, 1937-47
(thousand kms.)

(Annual totals for scheduled air services registered in each country)

Year	China ^a	India	Japan	Philippines	Siam	Total
1937.....	3266	2186	4992	1606	125	12175
1938.....	2677	..	6153	1530	154	10514
1939.....	2049	2714	7336	1512	157	13768
1940.....	2439	2181	7227	1432	232	13511
1941.....	2282	2079	7547	1114	426	13448
1942.....	1163	2606	7421	..	305	11495
1943.....	1102	3099	8438	..	162	12801
1944.....	1504	3412	8506	..	120	13542
1945.....	3239	5342	..	148	36	8765
1946.....	12187 ^b	7273	..	9967	..	29427
1947.....	19053	15063 ^c	..	11320	..	45436

Source: Data supplied by the International Civil Aviation Organization.

^a Includes, in addition to China National Aviation Co., the operations of Central Air Transport Corp. (until 1943 known as Eurasia Aviation Co.).

^b From November 1946, includes the non-scheduled operations of Civil Air Transport.

^c Excluding Pakistan from August 15, 1947.

^d Since 1945, aviation has been carried out by the Supreme Command for Allied Powers.

Philippines, the total distance covered increased from 7.1 million kilometres in 1937 to 45.4 million kilometres in 1947. There is little doubt that, given stable conditions and a rising standard of living, air transport should be able to show at least as rapid an expansion in the next decade.

In China the volume of traffic during 1948 expanded more rapidly than the facilities to handle it. While the number of planes increased from 84 in 1947 to 88 in 1948, the monthly volume of passenger traffic rose from 19.3 million to 37.7 million passenger-kilometres.

Table 38 shows that, as compared with 1937, the growth in Chinese civil aviation has been very rapid. In terms of monthly averages, the volume of freight and mail traffic between 1937 and 1948 has increased 117 times, while that of passenger traffic has increased 26 times.

TABLE 38

Average Monthly Civil Aviation Statistics in China

	1937	1945	1946	1947	1948*
No. of planes.....	29	68	84	84	88
Length of operating lines (thousand km.)	9	22	43	78	86
No. of passengers (thousands)	1.92	5.08	21.58	24.75	53.44
Freight and post traffic (thousand tons)	.036	2.39	1.27	3.02	4.88
Passenger-kilometres (million)	1.44	4.64	18.80	19.26	37.73
Ton-kilometres (million) .....	.028	2.14	1.26	2.33	3.28

Source: *Statistical Monthly*, Directorate of Statistics, Nanking. November-December, 1948, p.58 (in Chinese).

* January-September average.

In India civil aviation has also developed rapidly, but compared to China, the volume of traffic is much smaller. Table 39 shows that in August 1948 the volume of freight and mail traffic reached 490,100 ton-kilometres while that of passenger traffic reached 23.5 million passenger-kilometres. Between 1939 and 1947, freight and mail traffic increased fifteenfold while passenger traffic, in terms of passenger-kilometres, increased more than a hundredfold. As compared with the last quarter of 1947, immediately after partition, freight and mail traffic in August 1948 increased by 35 per cent and passenger traffic by 10 per cent.

In Pakistan, in the period of 16 months, from partition to the end of 1948, there was a fairly rapid advance in civil aviation, as shown in table 40.

TABLE 39
*Average Monthly Civil Aviation
Statistics in India*

	1939	1945	1946	Apr.-June average	1947 Oct.-Dec. average	August 1948
Hours flown (thousands) . . .	1.17	1.82	2.50	5.27	4.76	6.96
Capacity (million ton-kilometres) . . . . .	..	.37	1.14	2.56	2.66	3.72
Passenger traffic						
No. of passengers (thousands) . . . . .	.30	2.01	8.79	21.90	24.71	26.96
Million passenger-kms. .	.18	2.24	8.19	18.91	21.34	23.53
Freight traffic						
(thousand ton-kms.) . . .	2.3	34.0	52.3	148.2	238.3	294.2
Mail traffic						
(thousand ton-kms.) . . .	27.2	23.0	71.1	117.0	124.1	195.9
Total load						
(thousand ton-kms.) . . .	45.4	261.8	847.5	1,933.4	2,266.1	2,608.8

Source: *Eastern Economist*, Dec. 31, 1948, p. 1164.

In Indonesia, air passenger traffic increased from 17.6 million passenger-kilometres during the fourth quarter of 1947 to 29.5 million during the third quarter of 1948; air freight traffic during the same period increased from 2.2 million to 3.9 million ton-kilometres. Compared with the 1939 quarterly returns, this represented a twelvefold increase for passenger traffic and more than a hundredfold for freight.

In Indochina, passenger traffic increased from 64,213 passengers in 1947 to 226,302 in 1948 while freight traffic increased from 2,641 to

TABLE 40
Civil Aviation Statistics in Pakistan

	August 15, 1947	December 31, 1948
No. of air transport companies.. .	1	1
Aircraft in operation	9	32
Route length (kms.)	1,103	7,986
Average monthly traffic handled during period August 15, 1947 to end of 1948*		
Hours flown	3,379	
No. passengers	7,836	
Mail traffic (kgs)	41,074	
Freight traffic (kgs)	194,203	

Source: Data supplied by the Civil Aviation Department, Ministry of Defence.

* Excluding traffic in transit.

11,325 tons. Both in 1947 and 1948 more than half the passenger and freight traffic centred on Saigon. In 1948 the internal air traffic in Saigon, 111,599 passengers and 5,151 tons of freight, was much greater than the international air traffic, 19,527 passengers and 1,211 tons of freight.

In Burma the main development in 1948 was the Presidential Order dated 23 March (Nationalization of Air Transport Order, 1948), by which the Union of Burma Airways Company was formed as the national air transport company of the country. Commercial aviation started in Burma in 1931. On the eve of the war, four foreign aviation companies had lines connecting Rangoon with other countries. There was also one internal line whose service was discontinued.

In Siam no civil aviation returns are yet available for 1948. For the eight months from February to September 1947, the volume of internal air traffic reached 3 million passenger-kilometres, and 66,500 ton-kilometres, as compared with 148,000 passenger-kilometres, and 21,600 ton-kilometres in 1940.

In Hong Kong the number of passengers carried by commercial planes rose from 81,815 in 1947 to 181,444 during the first ten months of 1948, while the freight and mail traffic rose from 1,036 to 1,649 tons.

CHAPTER VII

Labour

In this chapter, to the extent that available material permits, the volume of employment and its relative distribution among different occupations are analysed. There follows a description of the sources of labour supply and of the methods of recruitment. The productivity of labour in the more industrialised countries of the region is then examined. Technical training, as an important means to raise productivity, is not touched upon, as it has been covered in a recent report on *Training Problems in the Far East*, jointly undertaken by the United Nations Economic Commission for Asia and the Far East and the International Labour Organisation. Conditions of work, which failed to show much improvement during the year under review, are described briefly. Labour organisation and legislation is surveyed in the final section.

EMPLOYMENT AND DISTRIBUTION

The incomplete, heterogeneous, and out-of-date character of the population data of many countries of the region makes it virtually impossible to determine accurately the extent of employment. Only rough indications can be given on the basis of available material.

In table 41 an attempt is made to indicate the proportion of the total population that is gainfully employed. Difficulty is at once encountered in defining the term "gainfully employed". The extent of such employment may appear large or small according to whether it is full-time or part-time, paid or unpaid, covers age-groups of 15 or below, and is completely or incompletely enumerated. For example, in the Philippines, where the proportion of gainfully occupied population reached 52.9 per cent in 1939¹ and is the highest in the region, this is due to the fact that females of 10 years old or over in "domestic and personal

¹ *Yearbook of Labour Statistics, 1945-46*, p. 5. This is next only to Romania (58.4 per cent in 1930), U.S.S.R. (57.5 per cent in 1926), and Bulgaria (56.5 per cent in 1934).

TABLE 41

Proportion of gainfully occupied population in total population

Country	Date of census	Total population (thousands)	Gainfully occupied population	
			Number (thousands)	Per cent
Burma	1931	14,667	6,231	42.5
Ceylon	1921	4,499	2,232	49.6
India	1931	352,838	148,817	42.2
Indonesia	1930	60,727	20,871	34.4
Japan	1947	78,627	34,222	43.5
Korea	1944	25,120	10,271	40.9
Malayan Union ..	1947	4,903	2,000	40.8
Philippines	1939	16,000	8,466 (5,320)*	52.9 (33.2)*
Siam	1937	14,464	6,824	47.2

Source: *Burma Handbook*, Government of India Press, Simla, 1944, pp. 10, 12. *Ceylon Yearbook*, 1948, Department of Statistics, Colombo, 1948, p. 36. *Yearbook of Labour Statistics*, 1945-46. International Labour Office, Montreal, 1947, pp. 5, 11, for Japan. *Statistical Pocketbook of Indonesia*, 1941, Department of Economic Affairs, Central Bureau of Statistics, Batavia, pp. 7, 14. *Japanese Economic Statistics*, December, 1948, SCAP, Tokyo, p. 98. James Shoemaker, *Notes on Korea's Postwar Economic Position*, Tenth Conference of the Institute of Pacific Relations, September, 1947, Secretariat Paper No. 4, p. 25. *Annual Report of the Malayan Union*, 1947, Government Press, Kuala Lumpur, 1948, p. 6. P. P. Pillai, *Labour in South-east Asia*, Indian Council of World Affairs, 1947, p. 207, for data on the Philippines. *Statistical Yearbook of Thailand*, 1937-38 to 1938-39, Central Service of Statistics, Bangkok, pp. 46, 57.

* Figures in brackets indicate the number and proportion of gainfully employed populations after exclusion of 3,146,000 "housewives".

service" constituted almost forty per cent of the total gainfully employed population.¹ Again, in Indonesia, where the proportion of gainfully employed is 34.4 per cent and appears to be the lowest in the region, it refers to "professional workers", which may cover a more narrowly defined group than in many other countries. In Japan, the scope is more specific, for the gainfully employed are the "labour force", that is, "all persons 15 years old or over" by Japanese reckoning (roughly equivalent to 14 years old or over by the Western method of counting age) who have been either "employed" or "unemployed" during the survey week.²

Subject to the above and other limitations, the data presented in table 41 suggest that about forty per cent of the total population of the region may be regarded as gainfully employed. On the basis of a total

¹ Pillai, *Labour in South-east Asia*, Indian Council of World Affairs, New Delhi, 1947, p. 207. Figures from an article reprinted from the *U.S. Monthly Labour Review*, April, 1945. In absolute terms, the total gainfully employed population in 1939 is 3,478,000 under "domestic and personal service" for both sexes, of whom 3,355,000 are females of 10 years and over, including 3,146,000 "housewives".

² *Japanese Economic Statistics*, December 1948, p. 98.

TABLE 42
Occupational distribution of gainfully employed population

	Agriculture ^a	Mining	Manufacturing	Transport	Trade and Commerce	Professions and Administration	Domestic service ^b	Other	Total
Burma (1931)	69.5	0.6	10.8	3.6	8.9	4.5	0.7	1.4	100
Ceylon (1921)	62.2	0.1	12.9	3.5	7.3	3.0	11.0	—	100
India (1931)	67.1	0.2	10.0	1.5	5.2	2.7	7.3	6.0	100
Indonesia (1930) ...	68.8		10.6	1.5	6.2	3.3		9.6	100
Japan (1947)	52.3	2.0	21.5	4.5	7.2	7.2		5.3	100
Korea (1944)	73.0	2.2	6.8	1.6	4.2	2.8		9.4	100
Malaya (1931)	60.7		12.3	6.3	10.7	3.2	6.8	—	100
Philippines (1939) ..	68.8	0.9	11.3	3.8	5.1	3.0	6.2 ^c	0.9	100
Siam (1937)	88.6	0.2	1.9	0.9	5.3	1.6	1.2	0.3	100

^a Includes forestry, fishery, and hunting.

^b There is obviously lack of uniformity in defining the status of a housewife under "domestic service", which seems to account for the great disparity in the relative importance given to this category of occupation in censuses of different countries. For lack of original censuses, no attempt is made to rectify the discrepancies for countries other than the Philippines.

^c There were in 1939, 12,508 males and 3,354,576 females under domestic and personal service. If the number of "housewives", reported to be 3,145,763, is excluded, the total number of females gainfully employed in "domestic and personal service" will be 208,813. For both sexes, the total number will thus be 332,321 instead of 3,478,084.

population of 1,142 million in the AFE region, this means a labour force of about 460 million.

As shown in table 42, the employed population is to be found largely in the agricultural group. Even in Japan the gainfully occupied population in agriculture, including forestry and fishery, rose from the prewar (1930) proportion of 48¹ per cent of total occupied population to 52 per cent in 1947, as a result of changes in the economy arising from military defeat and Allied occupation. Excluding Japan, the proportion of gainfully occupied population in agriculture cannot be less than 60 to 70 per cent, even allowing for the effects of recent industrialization.

About 10 per cent of the total employed population in the region is to be found in manufacturing (factory and handicraft) industries. Table 42 shows occupational distribution in individual countries. It will be seen that Japan had the largest proportion of employed population in manufacturing industry, while Siam had the smallest.

The remaining 20 to 30 per cent of the total employed population is distributed among service industries such as trade, transport, public administration, free professions and domestic service.

¹ *Economic Survey of Asia and the Far East, 1947*, p. 32.

LABOUR SUPPLY AND RECRUITMENT

Labour in countries such as China and India, with heavy pressure of population on the land, is largely indigenous. Only in newly developed lands, mainly in South-east Asia, does alien immigrant labour, usually Chinese and Indian, and to a small extent Javanese, play an important role. Such labour is mainly found in factories, mines and plantations, and is engaged in the production and processing of raw materials for export.

Of the estimated 8 to 9 million Chinese emigrants residing abroad, over 90 per cent is concentrated in Siam, Malaya, Indonesia, Indo-China, Burma, the Philippines, and Hong Kong. In Hong Kong labour is entirely Chinese. In Bangkok, Siam's only industrial centre, labour in industrial establishments of all kinds in 1947 was 66 per cent Chinese and 34 per cent Siamese.¹ In Singapore in 1946, 62 per cent of the wage-earners were Chinese, 21 per cent Indian and 17 per cent Malay, Javanese and others.² In North Borneo, in establishments employing 20 or more workers, indigenous labour constituted 57 per cent, Chinese 27 per cent, Javanese 13 per cent and others 3 per cent, in the third quarter of 1948.³ In Indonesia in 1930,⁴ Chinese immigrants constituted the largest alien group, forming 2.03 per cent of the total population, as compared with 0.19 per cent for other Asians, and 0.40 per cent for Europeans. In Manila, the industrial centre of the Philippines, Chinese immigrants numbered 70,090 out of a total alien population of about 74,000.⁵ In Indo-China in 1936, Chinese immigrants also constituted the largest alien group representing 1.42 per cent of the total population.⁶

In the Malayan Federation, Burma and Ceylon, Indian labour is more important. In the Federation of Malaya in 1947, 46 per cent of the labour in estates, mines, factories and government departments was Indian, 32 per cent Chinese, 17 per cent Malay, and 5 per cent Javanese and others.⁷ In Burma in 1931, 9.4 per cent of the total employed population was Indian, and 1.5 per cent Chinese; in certain activities, the percentage of Indian labour was much higher, e.g., 16 per cent in in-

¹ *Economic Survey of Siam, 1947*, ECAFE Secretariat, 1948, p. 42 (type-written).

² *Singapore Annual Report 1946*, Government Printing Office, 1947, p. 41.

³ *Economic Survey of North Borneo, 1948*, prepared for ECAFE Secretariat by the Chief Secretary, Government of North Borneo, February, 1949.

⁴ *Statistical Pocketbook of Indonesia, 1941*, p. 7.

⁵ *Yearbook of Philippines Statistics, 1946*, Bureau of the Census and Statistics, Manila, 1947, p. 236.

⁶ Charles Robequain, *The Economic Development of French Indochina*, Oxford University Press, 1944, p. 34.

⁷ *Annual Report of the Labour Department for the Year 1947*, Government Press, Kuala Lumpur, 1948, p. 48.

dustry, 37 per cent in mining, and 45 per cent in transport.¹ In Ceylon, Indians constituted 86 per cent of the labour on tea and rubber estates in 1938, and 78 per cent in 1946.² It has been estimated that, of a total population of 732,258 on all plantations (tea, rubber and coconut) in Ceylon, 90 per cent were Indians.³

The movement of labourers from those parts of India where there are too many workers for current employment opportunities to Ceylon, Malaya and Burma (where agricultural, mining and transport development called for more labour than could be secured in those countries) constituted a valuable form of international co-operation. Unfortunately disputes arose between the Government of India and the other Governments about the treatment of Indian workers, especially about their rights to settle and acquire citizenship, with the result that, before and during the war, restrictions were placed on the emigration of unskilled Indian labourers to Ceylon and Burma. Although, after a time, the movement of labourers between India and Ceylon was renewed, it seems probable that the new Dominion of Ceylon will strictly regulate immigration, subject to such agreements as may be negotiated with India. Negotiations between India and Burma were resumed after the war, but the disturbances in Burma as well as the new economic policies of independent Burma will probably prevent the immigration of Indian labour on anything like the old scale. Many thousands of Indian labourers in Malaya died during the Japanese occupation, and many more were repatriated after the war with the result that there has been a shortage of labour. The prewar flow of unassisted immigrants has not been restored; and until the disturbances cease, Indian labourers may be deterred from going to Malaya by the apprehension of danger.

In Ceylon a large proportion of the Indian immigrants has settled permanently. In the Federation of Malaya and Burma the Indian immigrants are predominantly transients who work for a period and return to India with their savings. The tendency in all three countries seems to be towards making it more difficult for Indians to acquire rights of permanent residence. But the shortage of indigenous labour for plantations, mines and large scale agricultural development may lead the Governments to encourage a greater movement of Indian labour for temporary employment.

In China, India, and also Japan, industrial labour supply is primarily derived from overcrowded villages. These workers, however, are

¹ *Burma Handbook*, 1944, p. 12.

² *Ceylon Yearbook*, 1948, p. 12.

³ G. R. Motha, "Indian Labour in Ceylon", in *Asian Labour Quarterly*, New Delhi, October, 1948.

not completely divorced from their original preoccupation with agriculture; as a result, the relation between industrial and agricultural employment is close. It is not uncommon, even in India and China, for farm workers to migrate to mines and factories during the slack agricultural season. In the Bokara quarry in India, for example, it is estimated that 50 per cent of the workers spend half the year in the colliery, and during the other half, are engaged in agriculture in their native districts. These workers are relieved by men from their own villages who likewise work in the colliery and in agriculture alternately each six months. Another 25 per cent of the labour force is recruited by the contractor from local agricultural labourers who work in the colliery when there is no cultivation or harvesting. They attend irregularly throughout the year. The remaining 25 per cent may be regarded as floating.¹

This close relationship between industrial and agricultural employment necessarily results in a great deal of absenteeism and high turnover of labour. In India the proportion of absenteeism is estimated to average 10 to 15 per cent in factories, and 25 to 30 per cent in mines and plantations.² In a survey of 22,521 coal-miners in Jharia collieries, it was found that 56 per cent were permanently settled while 44 per cent were migratory labour.³

Because of the seasonal and migratory character of industrial labour supply and the consequent high proportion of absenteeism and turnover, it has been a common practice in countries of the region, whether using local or immigrant labour, to hire contractors whose function is to recruit labourers from over-populated villages or from other countries having surplus labour available for emigration to less-crowded areas. These contractors usually keep on hand a large labour force of which a part is unemployed until required for service. Chronic under-employment under this system can only be rectified when the need for it is removed by better methods of recruitment and by the absorption of surplus population through industrialisation.

Since the war, a start has been made in the direction of better methods of labour recruitment and employment. Among these is the establishment of labour exchanges on the part of government and business. In China, labour exchanges increased from 498 in December 1947 to 710 in June 1948 of which about 40 per cent were established by the Government. Complete returns from seven exchanges for 1947 show that as against 53,225 applications for jobs, there were 11,505 offers and

¹ Report on the Bihar Enquiry Committee, Vol. III, Part B, p. 202. Quoted in R. Mukerjee, *Indian Working Class*, Second edition, Hind Kitabs, Bombay, 1948, p. 26.

² India and Pakistan Yearbook, 1948, p. 398.

³ Mukerjee, *Indian Working Class*, p. 26.

7,763 placements.¹ These data, although limited, are significant in showing that, while applications exceeded offers by almost four times, placements were only two-thirds of the offers made. There is evidently need for a greater number of employment exchanges as well as for more ample facilities for training unskilled workers seeking trained positions.

In India and Pakistan the exchange of population at the time of partition has created a serious problem of redistribution in employment. The migration of nearly five million people from Pakistan into India, "put the employment resources of India to a considerable strain, and greatly shook the economy of the new-born Dominion."²

Similarly, in Pakistan, with reference to partial unemployment amongst agricultural workers, "the position has been greatly accentuated on account of the exchange of population which has resulted in a net increase of about two million persons in western Pakistan".³

In India, of 80,253 persons registered at the government employment exchanges in September 1948 only one-third were placed.⁴ In Pakistan, registrations reached 102,098 at the end of 1947, of which only one-third were successfully placed.⁵

LABOUR PRODUCTIVITY

Data on labour productivity in countries of the region are still in a rudimentary stage, referring usually only to individual establishments over a limited period of time. Apart from China, India and Japan, where industrialisation has proceeded further than in other countries of the region, over-all productivity data for a period of years are often entirely lacking.

In Undivided India, the index of labour productivity per worker declined by 31 per cent between 1939/40 and 1946/47 and remained unchanged in 1947/48.⁶ Computed on a man-hour basis, the decline was by only 23 per cent in 1946/47 and 22 per cent in 1947/48. This difference, according to the basis of computation, is attributable to labour disputes, absenteeism, and the post-war reduction in working hours.

¹ *Statistics on Social Affairs*, Ministry of Social Affairs, Nanking, February, 1948 (in Chinese). These are exchanges registered with the Ministry of Social Affairs only.

² Paper supplied to ECAFE Secretariat by the Indian Ministry of Labour, January, 1949.

³ *Survey of Pakistan, 1947-48*, prepared by the Government of Pakistan for ECAFE Secretariat, September, 1948, p. 445.

⁴ *Indian Labour Gazette*, December, 1948, p. 445.

⁵ *Survey of Pakistan, 1947-48*, p. 57.

⁶ *Eastern Economist*, Annual Number of India 1948, New Delhi, 31 December, 1948.

In regard to China, there has been a rise in labour productivity in Taiwan industries since 1947, altho in other parts of the country there seems to have been a decline. For five of the six industries in Taiwan operated by the National Resources Commission, the leading state enterprise in China, there were increases in labour productivity in April, 1948 as compared with July, 1947, namely, 11 per cent for fertilizers, 15 per cent for gold and copper mining, 31 per cent for camphor, 43 per cent for cement, and 146 per cent for petroleum, but a decrease of 8 per cent for paper.¹

In Japan productivity figures are available for the coal-mines since 1930. These show a steady decline in productivity from 1934 to the end of the war, a rapid rise in 1946 and some further recovery in 1947 and 1948. By November 1948, however, productivity in coal-mines was still only 38 per cent of the 1937 level. Output of underground workers (72 to 74 per cent of total employees in 1930-40, and 52 to 56 per cent in 1946-48) was 49 per cent of the 1937 level.

During the war period (1937-45), the *per capita* labour productivity index in Japanese coal mines declined from 100 to 27.8, due chiefly to employment of marginal workers, rapid capital depreciation, short supply of replacement equipment, working of inferior seams, and the strain of war on efficiency. The recovery since the war, from 27.8 in 1945 to 32.0 in 1946, 33.1 in 1947, and 37.9 in November 1948, is largely attributable to the fact that since coal constitutes an essential item in the Japanese industrial economy and can no longer be imported from abroad, top priority was given to the production of coal-mining machinery to replace worn-out equipment.

On the basis of the limited data presented above, it would seem that recovery of productivity has been slower in this region than in Europe.² Productivity in Asia, as pointed out in chapter I, is low, primarily because the ratio of labour to capital is high. Before the war, capital intensity in most countries of the region was much lower than in Europe, because of industrial under-development. Moreover, the limited capital equipment of the region had to sustain the strain of war for a longer period than that in Europe—in China and Japan for over eight years. Since the war, it has been more difficult for Asian than for European countries to obtain new capital equipment and spare parts, while the spread of civil disturbance in a number of countries has caused further depreciation and loss to existing equipment. In newly independent coun-

¹ *Monthly Reports on State Industries and Mines*, July 1947 and January-April 1948. (In Chinese.)

² *World Economic Report*, 1945-47, Department of Economic Affairs, Lake Success, 1948, p. 212.

tries in the region, technical and administrative personnel was found inadequate after the departure of European staff. The repatriation of Japanese technical and administrative staff from certain liberated areas had a similar effect. In South-east Asia, where immigrant labour, often more adaptable than indigenous labour to industrial production, has encountered new restrictions, production has often suffered a decline in consequence. Again, labour difficulties seem to have increased since the war, owing to the failure of wages to catch up with the cost of living. For example, in India, strikes and go-slow policies were responsible for 6 to 8 per cent of the reduction in total textile output.¹ Finally, labour in Asia and the Far East, although more numerous than in Europe, is generally less productive owing to lack of training in industrial technique and discipline, poor conditions of work, and high turnover, all of which have been accentuated since the war.

CONDITIONS OF WORK

Conditions of work in the region are generally inferior to those in the more industrialised parts of the world. This is primarily due to over-population, accompanied by widespread under-employment and unemployment. As will be seen later in this chapter, labour organization has advanced in recent years, but on account of the prevalence of illiteracy, lack of training and skill, and diversity of language, race, religion, and culture among the rank and file of labour, its strength for collective bargaining is still limited. Despite the efforts of the International Labour Organisation and of some Governments in the region to promote minimum standards of wages, hours, safety and other conditions of work, mechanism of enforcement has been found lacking or ineffective, and improvement has been haphazard.

Real wages, as an index of working conditions, nevertheless showed some improvement in 1948 as compared with 1947, although on the whole they were still below prewar levels. In China, there was an increase in real wages for industrial labour in four of the seven cities during the first half of 1948, as compared with 1947. In Shanghai, for example, real wages (1937 = 100) rose from 133 to 148, in Tientsin from 151 to 159, in Nanking from 113 to 126, and in Canton from 61 to 98. On the other hand, the index fell from 61 to 47 in Tsingtao, from 128 to 106 in Chungking, and from 88 to 84 in Hankow.²

Real wages in India and Pakistan, adjusted by all-India cost-of-living indices, have shown signs of improvement since the war, although

¹ *Study on Textiles*, by the ECAFE Industrial Development Working Party, in ECAFE Document E/CN. 11/131 Annex E, p. 19, November, 1948.

² Computed for the indices published by the Department of Statistics, Ministry of Social Affairs, Nanking.

still below prewar. The index (1938/9 = 100) rose from 82 in 1944/45 and 1945/46 to 83 in 1946/47 and 87 in 1947/48.¹

In the Malayan Federation and Singapore, while money wages in 1948 were 200 to 300 per cent above prewar, the cost of living was 300 to 400 per cent higher. Real wages, therefore, suffered a decline of about 25 per cent.²

In the Philippines, real wages, while recovering their pre-war (1941) level in 1947, declined again after August 1948 owing to a rapid increase in the cost of living caused by a sharp rise in the price of rice. This decline was a main cause of labour disputes.³

In Indonesia it would appear that unskilled labour is currently paid 3 to 7 times the 1938 level, while the general price index is 6 times as high.⁴

In Japan the real wage index (August 1946-March 1947=100), rose from 121 in 1947 to 155 during the first eight months of 1948.⁵ It is probable that real wages in Japan during 1948 were still below the prewar level.

The decline in real wages in many countries of the region has meant a further deterioration in the standard of living. This has been a major factor in the increase in labour unrest since the war. In India the rising cost of living is regarded as the main cause of postwar industrial unrest. Labour disputes rose in number from 820 in 1945 to 1,629 in 1946, and 1,811 in 1947, although in 1948 (first 10 months) they decreased to 1,393. The improvement in 1948 may be attributed to the passing of the Industrial Disputes Act of 1947, providing for conciliation, arbitration and adjudication of disputes, and of the Industrial Truce Resolution at the Indian Industrial Conference in December, 1947 which called upon labour and management to avoid strikes, lockouts and slowdowns. In Pakistan 47 of the 81 disputes recorded between August, 1947 and December, 1948 were in regard to wages. In China, returns from Shanghai showed an increase in labour disputes from 1,716 in 1946 to 1,969 in 1947, and 1,339 during the first seven months of 1948, of which one of the primary causal factors was wages. In Hong Kong it is officially recognized that further adjustment in wage rates of various grades of skilled labour is necessary to the solution of labour difficulties.

¹ *Eastern Economist*, Annual Number, Dec. 31, 1948.

² S. S. Awbery and F. W. Dalley, *Labour and Trade Union Organization in the Federation of Malaya and Singapore*, Government Press, Kuala Lumpur, 1948, p. 5.

³ Leon Ma Gonzales, *The Philippine Economic Picture*, Bureau of Census and Statistics, Manila, 1948, p. 80.

⁴ *Supplement on Indonesia, 1948*, by the Department of Economic Affairs, Batavia, February, 1949.

⁵ *Japanese Economic Statistics*, October, 1948.

LABOUR ORGANIZATION AND LEGISLATION

As was pointed out in the last *Survey*, labour organization has been growing throughout Asia and the Far East. This trend continued in 1948.

Organized labour in the region, however, is still confined mainly to industries operated on a relatively large scale, for example, mines, factories, dockyards, railways, public utilities, and plantations. Authentic statistics on the size of union membership in the region are not available, but various returns and estimates, official and unofficial, summarized in table 43, put the the total in 1947 and 1948 at about 14 million.

TABLE 43
Grade Union Membership in AFE Countries, 1947/48
(in thousands)

China	5,004	(June, 1948)	
Hong Kong	31	(	1947)
Japan	5,927	(Oct., 1947)	
South Korea	84	(Dec., 1947)	11,046
India	1,609	(	1946)
Pakistan	79	(Dec., 1947)	
Ceylon	169	(Dec., 1947)	1,857
Burma	41	(Feb., 1948)	
Indonesian Republic	488	(	1947)
Malaya	195	(Dec., 1947)	
Philippines	33	(Feb., 1947)	
Siam	100	(	1947)
			857
		TOTAL.....	13,760

Source: *Economic Survey of Asia and the Far East, 1947*, pp. 161ff; *Asian Labour* (Quarterly), October, 1948; *Annual Reports* for 1947 from the Federation of Malaya and the Colony of Singapore; *Monthly* issued by USAMGIK on South Korean Interim Government Activities, Feb. 1948; *Indian Labour Gazette*, July, 1948, p. 3; and data supplied by the China Office of ILO in Shanghai.

Throughout the region, there has been a keener appreciation of the value of labour legislation in preventing or reducing industrial unrest. Governments have adopted a more positive stand to protect the interests of labour, to encourage collective bargaining and to avoid industrial unrest. The Malayan Union, Singapore and Hong Kong passed a series of Bills on trade unions and trade disputes in 1946 and 1947. Indochina has also recognized the worker's right to association and the principle of collective bargaining. A decree of 24 July, 1947, laying down the rules according to which the new labour and social security code of Indochina was to be established, recognized the principle of the com-

munity's material obligations towards the working man and his family. It gives a new definition of the minimum wage, varying with the cost of living, recognizes the right to association and collective bargaining, and provides for the institution of labour councils, as well as conciliation and arbitration of disputes. Social security features, such as maternity benefits, old age pensions, etc., are also provided for.¹

In 1947 the Republic of Indonesia placed two enactments on the Republican Statute Book, the Labour Act and the Accident Act. The Labour Act, generally covering all wage-earners, provides for an 8-hour day and a 40-hour week, holidays with pay, and three-months maternity leave with pay. The Accident Act, covering industrial, plantation, forestry and fishery workers, holds the State responsible for the payment of compensation for accidents should the employer fail to make compensation. Since May Day, 1948, the employment of women workers underground has been banned.²

Burma amended the Factories Act in December 1947, reducing the maximum permissible hours of work from 54 to 44 per week, and raising the minimum working age from 12 to 13. It also formulated in 1948 a seven-point labour policy aiming to promote employer-employee harmony, fair wages, arbitration of disputes, full employment, industrial education, vocational guidance, and social insurance.³

In China the Constitution of 5 May, 1948 contains four articles (arts. 152 to 155) providing for adequate opportunity of employment, protective legislation particularly for child and woman labour, mediation and arbitration of disputes, and social insurance.

The Government of India has promulgated the Minimum Wages Act, effective 15 March, 1948 to protect "sweated" labour, and is investigating the system of "forced" labour, still found in a few districts, with a view to progressive reduction and eventual abolition.

Progress in labour legislation, although encouraging, is held back by difficulties in providing effective machinery for enforcement. Official reports from China indicated that 76 per cent of the factories investigated in 1947 did not, in one way or another, conform to the Factory Law. In South Korea the United States Military Government complained that the newly enacted Child Labour Law of 1947 had not been generally observed, as also the maximum hour legislation. Employers who violated the law were, it is stated, ignorant of the law.⁴ In Ceylon, the medical service in the plantations is inadequate to implement the provisions of the

¹ *Economic Survey of Indochina, 1947*, chapter VI.

² *Asian Labour*, October, 1948.

³ *ILO Legislative Series Supplement, 1948*, No. 1 Geneva.

⁴ *USAMGIK Monthly Bulletin*, June 1948, pp. 87-93.

Medical Wants Ordinance. In the Malayan Federation and Singapore, despite the Wages Councils Ordinance of 1947 and the Joint Wages Commission, it has been semi-officially pointed out that "there is minimum wage machinery but no minimum wage has been established".¹

Ineffectiveness of the enforcement of labour legislation arises from a number of factors, but principally there is a lack of realism in restricting the scope of the legislation as well as a failure to provide adequate machinery and staff for enforcement. In addition, the over all economic and social position of the region militates against rapid improvement in working conditions.

¹ Awbery and Dalley, *op. cit.*, p. 16.

PART THREE

MONETARY AND FISCAL DEVELOPMENTS

CHAPTER VIII

Currency

This chapter surveys developments in 1948 as compared with 1947 and, to some extent, with prewar years, in the field of currency, under the following sections: (1) changes in the monetary system, (2) composition of the currency reserves, (3) tendency towards managed currency, (4) exchange control, (5) relationship with the International Monetary Fund. A summary is given at the end of the chapter.

CHANGES IN MONETARY SYSTEMS

The year under review witnessed important changes in the monetary systems of a number of countries of the region. A brief account of these changes is given below.

A currency reform was introduced in *China* on August 19, 1948, the main features of which are described in chapter XI. In those parts of China held by the Communist authorities the Peoples' Bank of China was established in December 1948 as the central bank having the sole right of note-issue for the areas under Communist control. The currency system is to be a managed one and the note issue is to be backed by essential commodities such as food, cloth, etc. No free market in foreign exchange is to be permitted.

The monetary system of *India and Pakistan* underwent an important change during 1948. At the time of partition of the Indian sub-continent on 15 August, 1947, Pakistan, for obvious reasons, did not have a currency system of its own. It was, therefore, arranged that the Reserve Bank of India should continue as the common currency authority in both countries until Pakistan established its own currency system, and that the Bank should adopt such measures during the interim period as were considered necessary. The year 1948 witnessed the emergence of an independent currency system in Pakistan.

While Indian money was still legal tender the Reserve Bank of India put Pakistan notes (India notes overprinted with "Government of Pakistan") in circulation in Pakistan with effect from 1 April, 1948. The Indian notes lost their legal tender character on 30 September, 1948.

The Pakistan Government would, however, continue to accept them at par till 30 June, 1949. The Reserve Bank of India ceased to be the currency authority on 30 June, 1948 and did not put any notes into circulation in Pakistan after that date. The State Bank of Pakistan was inaugurated on 1 July, 1948 and was given the sole right of note issue which is to be fully covered by assets consisting of gold coins, gold bullion, silver bullion, sterling securities, approved foreign exchange, rupee coin and rupee securities. Of the total assets of the Issue Department of the Bank, not less than 30 per cent shall consist of gold coins, gold bullion, sterling securities and approved foreign exchange. The balance of the assets shall be held in rupee coins, rupee securities, approved bills of exchange and promissory notes.

The Pakistan rupee is the monetary unit in Pakistan and its rate of exchange has been fixed at one Pakistan rupee = 1s. 6d. sterling, the same as that of the Indian rupee. The State Bank of Pakistan issued its own notes, which are distinct from the overprinted notes first issued by the Reserve Bank of India, and are now legal tender in the country.

The assets of the Issue Department of the Reserve Bank of India are being divided between India and Pakistan on the basis of the note circulation in the two countries. Subject to certain modifications, the general principle is that Pakistan's share of the assets such as gold, sterling securities, India rupee coin and India rupee securities, would be in the same proportion in which these assets were held in the Issue Department of the Reserve Bank of India on 30 June, 1948.

Indian notes withdrawn from circulation in Pakistan were being returned to the Reserve Bank of India against the transfer of assets of equal value to the State Bank of Pakistan. The process is likely to continue for some time after 30 June, 1949. Up to 31 December, 1948, Indian notes worth Rs. 814 million had been returned to the Reserve Bank of India. Another Rs. 810 million were held by the State Bank awaiting transfer to India.

The changeover from the Reserve Bank of India to the State Bank of Pakistan as the currency authority in Pakistan was smooth. It was not accompanied by any dislocation and did not cause any serious inconvenience to the public.

The monetary system of Pakistan is elastic and leaves sufficient scope for the State Bank to expand or contract the note issue in accordance with the needs of the country. But the obligation on the part of India and Pakistan to maintain parity between the India and Pakistan rupees and to allow free movement of funds between the two countries, while very desirable in the interests of trade, implies that the respective pur-

chasing power of the two rupees cannot be far different from each other, and that the economy of neither country can be insulated against the operation of inflationary or deflationary forces in the other.

The Central Bank of the *Philippines*, the establishment of which was decided upon in 1947, was inaugurated on 3 January, 1949. This ushers in a new era in the currency history of the country. The automatic dollar exchange standard has been abandoned and an independent currency system established. The Central Bank has been vested with the sole right of note issue and has been given wide powers for the expansion or contraction of the money supply in accordance with the requirements of the country. It is required to maintain the existing rate of exchange, namely \$1.0 = P2, although under certain conditions the rate may be altered.

The Indochinese piastre is the common legal tender of the *Associated States of Indochina* (Viet-Nam, Cambodia and Laos) and is at present issued by the Banque de l'Indochine which is neither a central bank nor a government bank. The introduction of a currency reform in Indochina was decided upon in 1946. An important step in this direction was taken on 10 July, 1947 by an agreement between the French Government and the Banque de l'Indochine according to which the latter renounced its right of note issue. The agreement was ratified by the French Parliament by an Act on 25 September, 1948. Another Act was passed on the same date authorizing the establishment of a Currency Board (*Institut d'Emission*). The Board would be under the control of the High Commissioner and would have a monopoly of note issue in Indochina. So long as there is exchange control in Indochina, its note issue is to be backed by French francs, Treasury Bonds in Indochina, and by advance payments to the Indochinese Treasury. In the event of the suspension of the exchange control, the Act provides for the backing of the note issue by gold or foreign exchange. The Board's holding of French francs is not to fall below, nor its advance payments to the Treasury to exceed, 33 per cent of the note circulation.

The Board will maintain the parity of the piastre with the French franc at the existing rate, namely 1 piastre = 17 francs, but will have the power to modify the rate in certain circumstances.

The issue of currency will not be subject to political interference.

An important feature of the Board is that it is not to perform other central banking functions. It will not provide rediscounting facilities or otherwise control credit. This was considered necessary in view of the fact that its jurisdiction as currency authority would extend over a number of States which have not yet decided to have a common institution for the control of credit.

The Currency Board has not yet come into existence. It would be established by a decree supplementing the Act of 25 September, 1948, stating the date on which it is to begin to operate. Besides, an agreement between the Board on the one hand, and the Ministers of Finance and of France Overseas on the other, would be necessary for the allocation to the Board of assets and liabilities required for its successful working.

Since the passage of the two Acts on 25 September, 1948, Indochina has entered upon the transitional period provided for in the agreement dated 10 July, 1947 between the French Government and the Banque de l'Indochine. The latter continues to be the currency authority until the Board starts functioning.

The existing note issue of the Banque de l'Indochine is based on the exchange standard, namely the fixed convertibility of the piastre into the French franc and is therefore automatic and rigid. A certain measure of elasticity would be introduced under the reformed scheme of note issue by the proposed Currency Board.

No changes have been reported in the monetary systems of Burma, Ceylon, Hong Kong, Japan, Malaya and Siam. *Burma's* central bank which started functioning with effect from January 1948 is not to perform any currency functions; the Currency Board which was established in April, 1947 continues to be the currency authority. In *Ceylon* the proposed central bank, on the establishment of which a decision was taken in 1947, has not yet come into existence. Note issue is, therefore, still the responsibility of the existing Currency Board.

COMPOSITION OF CURRENCY RESERVES

Currency reserves are nowadays regarded as important not so much to provide for the internal convertibility of paper money as to ensure its convertibility into foreign exchange, consistently with the needs of the economy. Another important object of the reserve requirements is to provide a safeguard against excessive note issue. Furthermore, in so far as the reserves are sound and consist of gold, foreign exchange, etc., they do much to inspire public confidence in the currency—a factor of no mean importance. But the soundness of the reserves does not, by itself, ensure the successful working of a monetary system, as witness recent experience in *China* (see chapter XI).

There is always a hard core of currency which must remain in circulation for the public cannot do without it. No liquid reserves are required against this. A currency system can work successfully if it has in its reserves more than sufficient foreign exchange to meet all eventualities that are likely to arise. This may not necessarily be a very large part of the total currency reserves.

An examination of the reserves and of changes in their composition gives a fairly good idea of the present position and working of the various currency systems.

The reserves usually consist of gold and silver, foreign exchange, including the securities of foreign Governments, securities of the home Government and other assets. A significant development has been that gold no longer occupies an important position in the currency reserves, as will be seen from table 44. This is a basic change. In the days of the gold stand-

TABLE 44
Percentages of Various Classes of Reserves Against Note Issue

Country	Date	Note Issue (millions)	Gold and silver per cent	Foreign exchange per cent	and advance per cent	Govt. securities	Other assets per cent	Total assets per cent
Burma	1937	Rs. 380	..	..	..	..	..	100
	Dec. 1948	Rs. 400	..	65	..	..	..	100
Ceylon	1939	Rs. 53	27.2	71.1	1.2	0.5	100	
	1947	Rs. 396	—	77.0	35.9	—	—	112.9 ^a
China	31.10.48	G.Y. 1,595	40.7	0.9	—	58.4	—	100
India	1938/39	Rs. 2,106	21.1	31.7	15.2	32.0	—	100
	1947	12,658	3.5	89.7	4.6	2.2	—	100
	19.1.49	12,181	3.4	63.1	29.8	3.7	—	100
Indonesia	Mar. 1941	fl. 420*	80.0	..	..	..	..	..
	Mar. 1947*	fl. 946	50.4	..	..	..	..	..
	Mar. 1948*	fl. 1,365	..	..	..	..	..	..
	19.1.1949*	fl. 1,627	28.9	..	..	..	..	..
Japan	31.12.36	Y. 1,866	30.9	..	54.4	14.7	—	100
	31.12.47	Y. 219,142	1.3	..	91.6	7.1	—	100
	31.12.48	Y 355,280	0.2	..	93.8	6.0	—	100
Malaya	31.12.39	M. \$ 126	2.7	117.4	—	—	—	120.1
	31.12.47	M. \$ 412	1.0	107.7	—	—	—	114.5
	1.12.48	M. \$ 401	..	..	..	..	..	..
Pakistan	31.12.48	Rs. 1,697	2.7	92.3	2.9	2.1	—	100
Philippines	1938	P. 205	..	..	..	..	..	..
	28.6.47	P. 695	..	95.0	..	..	..	..
	31.1.49	P. 622	0.4	114.9	—	—	—	115.3 ^b
Siam	31.12.47	Bt. 2,174	35.3 ^c	19.6	38.1	7.0	—	100
	Nov. 1948	Bt. 2,323	33.1 ^c	27.1	33.4	6.4	—	100

* The figures relate to the note issue of the Bank of Java only. Information about the currency reserve of the government note issue is not available.

^b *Journal of Philippines Statistics*, Jan.-Dec. 1947, and Return dated 31.1.49 issued by the Central Bank of the Philippines. The foreign exchange holdings of the Central Bank of the Philippines also cover certain other liabilities of the Bank besides the note issue.

^c This includes the gold held in Japan. If that were excluded the percentage would fall to 15.5 and 14.5 for 1947 and 1948 respectively.

^a The assets cover besides note issue some other liabilities such as subsidiary coin, etc.

* Includes coins.

ard, countries which were on the gold standard had to maintain substantial quantities of gold in their currency reserves to ensure the convertibility of the local currency into gold. Countries on an exchange standard, whether it was the sterling, dollar, franc or the guilder exchange standard, held substantial amounts of gold in their currency reserves, because their holdings of foreign currencies were in effect as good as gold, since those currencies were based on gold. After the breakdown of the international gold standard in 1931, and later during World War II, the importance of gold in the currency reserves substantially declined.

This decline in the proportion of gold in the currency reserves is shown for individual countries in table 44. In the case of India the quantity of gold in the reserve remained practically unaltered, but as there was a great increase in the note issue its proportion to the note issue fell substantially. The proportion of gold in the currency reserve of Siam is substantial, but a considerable part of it is held in Japan, and if that is excluded the proportion is not very high. In the case of countries on the exchange standard, the "gold" holdings which consisted mainly of foreign exchange, lost their gold character when the foreign currencies concerned ceased to be convertible into gold. The small proportion of gold in the reserves does not, of course, by itself detract from the soundness of the currency systems.

The Hong Kong currency is based on the automatic sterling exchange standard. All notes in excess of a small fiduciary issue are to be covered 100 per cent by the Hong Kong Government Certificates of Indebtedness which the three issuing banks can obtain from the Government against payment of sterling in London. Exact information about the sterling assets is not available, but these must constitute a very high proportion of the currency reserves.

In the case of India, the foreign exchange reserves were as high as 89.7 per cent of the note issue in 1947 against 31.7 per cent in 1938-39. The increase was mainly due to the issue of currency during the war against sterling credited to the account of the Reserve Bank of India in London. The proportion fell to 63.1 per cent in January, 1949. The fall was due to the purchase by the Government of India from the United Kingdom Government of annuities for financing the payment of sterling pensions, the acquisition of the defence installations and stores left behind in India by the United Kingdom at the end of the war, and the adverse balance of payments on current and capital account. The arrangements for further release of sterling balances are described in chapter XII.

The foreign exchange reserves of the Malayan currency amounted to 107.7 per cent of the total note issue on 31 December, 1947. The law

regulating the issue of currency requires that the assets of the Malayan Currency Fund are not to fall below 110 per cent of its liabilities. The currency is based on the automatic sterling exchange standard and can, therefore, be issued only against sterling credited to the account of the Currency Fund in London. The sterling holdings of the Malayan Currency Fund are not blocked. They consist of liquid assets and of long-term securities. The former exceeded 62 per cent of the note circulation on 31 December, 1947. The liquid assets of the Currency Fund declined to 41 per cent of the note issue on 30 June, 1948. But even this is far in excess of any possible requirements of foreign exchange.

Foreign exchange constituted 92.3 per cent of the currency reserves of Pakistan on 31 December, 1948. This consisted mostly of sterling assets, part of which is available for current use and part of which is blocked (see chapter XII), and to a smaller extent of Government of India securities.

The foreign exchange holdings of the Central Bank of the Philippines amounted to 114.9 per cent of the note issue on 31 January, 1949. These holdings consist of dollar assets and cover certain other liabilities of the Bank besides the note issue.

The combined reserves of gold, silver and foreign exchange in the case of most countries of the region, with the exception of China and Japan, are sufficient to enable the successful working of the currency systems, provided that the general economic and political conditions are satisfactory.

TENDENCY TOWARDS MANAGED CURRENCIES

The changes in monetary systems reviewed above indicate that the tendency towards managed currencies, which was already very marked, has become still more pronounced. Pakistan's central bank, established in July, 1948, has been given wide powers for the expansion or contraction of currency. Again, the inauguration of the Central Bank of the Philippines on 3 January, 1949, marks the abandonment of the automatic dollar exchange standard and the introduction of an independent managed currency system. The note issue of the Bank has to be covered by assets which have not been defined. This allows the Bank full discretion to expand or contract the volume of currency in accordance with the requirements of the country and not with the availability of dollars. It is required to maintain the existing rate of exchange, namely US\$1 = P2. Under certain conditions the rate can be altered, but only with the agreement of the President of the United States of America.

The new currency system which is being introduced in Indochina envisages a certain degree of management. The reserve requirements for

note issue are such as to leave an element of liberty to the Currency Board in the matter of expansion or contraction of currency. The Board is required to maintain the parity of the piastre with the French franc at the existing rate, but it has been given power to modify the rate under certain conditions.

Malaya and Hong Kong continue to be on the sterling exchange standard, and there has been no move for the introduction of an element of management into their currency systems. This is partly explained by the fact that both Singapore and Hong Kong are mainly entrepôt centres and, therefore, the question of the adjustment of the internal cost-price structure to world conditions through the monetary mechanism does not arise. Exchange stability is of much greater importance, and this is achieved through the exchange standard, to some extent limited, in the case of Hong Kong, by the existence of a free exchange market.

The currency reform of 19 August, 1948 in China was an ambitious attempt to put the monetary system on sound lines in a manner in which the element of "management" was to play a very important role. The attempt failed because certain basic conditions for success were lacking (see chapter XI). The experience of China has shown that mere management is no panacea for the currency ills of a country. The general political and economic conditions in the country and the ability and skill of the currency authorities play a determining role in the success of a managed system.

EXCHANGE CONTROL

On account of the serious shortage of foreign exchange, dealings in it remained subject to control in varying degree in all countries of the region. In order to make the best use of limited resources, the control measures usually required the surrender of foreign exchange earnings which were made available to importers and others for approved purposes only. A brief account of some of the important developments in the exchange control systems of various countries of the region is given below.

There was no important change in the system of exchange control in *Burma* except that the control, which was rather loose up to the end of August, 1948, was tightened in the latter part of the year on account of the unfavourable balance of payments. With effect from 1 September, 1948, remittances which could be made to the Sterling Area without the prior approval of the control authorities were reduced from Rs. 1,350/- to Rs. 500/-. With effect from November, 1948, the control was further tightened and remittances of whatever amount without the prior approval of the control authorities were disallowed.

As a result of the progress of inflation in *China*, the official rate of exchange was consistently unrealistic. This resulted in smuggling of exports and in free market operations. A system of Exchange Surrender Certificates was introduced in May, 1948 to encourage exports through official channels. These certificates were issued to exporters surrendering foreign exchange who could sell them to approved importers at a premium. This made the sale of foreign exchange conform more to the market rate than to the official rate. Besides, the holders of these certificates were saved from loss resulting from a fall in the value of the Chinese currency during the period in which they held them. The system was suspended when the currency reform was introduced on 19 August, 1948, but was re-introduced on 22 November, 1948.

The system of exchange control in *Hong Kong* was the same as was in force in the United Kingdom, but in view of the fact that *Hong Kong* was mainly an entrepôt centre, considerable discretion was allowed to the local authorities in the administration of the control. The discretionary powers were interpreted quite liberally and only 25 per cent of the foreign exchange proceeds of a few selected exports were collected, the balance being left with the traders. However, in order to prevent sterling area produce from passing through *Hong Kong* en route to hard currency areas without the surrender of the exchange proceeds to the sterling area pool, re-exporters of sterling area goods from *Hong Kong* had to surrender 100 per cent of the foreign exchange proceeds.

The comparative freedom from exchange control enjoyed by the *Hong Kong* traders, and the existence of a free market in foreign exchange, led to certain developments which were not looked upon with favour by the authorities. For example, considerable quantities of merchandise coming from sterling area countries could be re-exported to soft currency destinations which, but for the facilities provided by *Hong Kong*, would in many cases have been directed to hard currency areas. Besides, the unofficial rate of exchange between sterling and the U.S. dollar was more favourable to sterling in *Hong Kong* than in such centres as New York, Zurich, Antwerp, Amsterdam and Paris. Thus it paid a dealer to convert sterling into U.S. dollars at *Hong Kong* and reconvert the dollars into sterling in other markets.

As a remedial measure, new exchange regulations were issued in 1948 the main features of which were as follows: (1) Monetary transactions between the United Kingdom and *Hong Kong* were (with a few exceptions) made subject to licence. This resulted in a considerable reduction in the U.S. dollar transactions in the *Hong Kong* free market. (2) The proceeds from the export of goods which were not financed in U.S. dollars and which were destined to countries other than the Sterling

Area were (with a few exceptions) to be surrendered. (3) Businessmen were allowed to retain the entire proceeds from the export of certain goods, and a part of the proceeds from certain other goods, originating from China, Hong Kong, Macao or Korea.

After the partition of the *Indian subcontinent*, the Reserve Bank of India administered exchange control for both countries. The balance of the sterling released by the United Kingdom as on 14 August, 1947, plus the current earnings of foreign exchange by exports from Pakistan and India, constituted a common pool from which requirements of both countries were met. There was a list of articles included under the open general licence which could be imported by merchants in either country without obtaining a licence and for which the necessary foreign exchange was provided by the Reserve Bank of India. Ceilings were fixed in respect of the import of other items. The import control of ceiling items was exercised independently by the two countries as from 15 August, 1947. Pakistan was allotted a fixed share of foreign exchange for these items.

With effect from 1 January, 1948 the exchange control of the two countries was separated, although the Reserve Bank of India continued to administer the exchange control on behalf of Pakistan until 1 July, 1948. Foreign exchange earnings on account of exports from each country accrued to the country concerned. For this purpose the earnings of each were determined on the basis of the port from which the goods were exported and not on the basis of the origin of the goods. Pakistan jute exported through Calcutta (an Indian port) was treated as an export of the Indian Union. Similarly Assam tea (Indian origin) exported through Chittagong (a Pakistan port) was treated as an export from Pakistan. Later in the year this arrangement was modified and foreign exchange earnings accrued to the country from which the goods originated irrespective of the port from which they were exported.

With effect from 1 January, 1948, agreements for the release of sterling by the United Kingdom were negotiated independently by the two countries (see chapter XII). On 1 July, 1948 the State Bank of Pakistan came into existence and, as the central bank of the country, took over the exchange control of Pakistan from the Reserve Bank of India. The transition from the unified administration of the exchange control by the Reserve Bank in Undivided India to the assumption of independent control for Pakistan by the State Bank of Pakistan was smooth and did not bring about any dislocation of trade or industry.

It was arranged that for one year in the first instance, that is from 1 July, 1948 to 30 June, 1949, there would be no exchange control between India and Pakistan, that the transfer of funds between the two

countries would be freely allowed and that the parity between Indian and Pakistan rupees would be maintained. This removed a possible obstacle to the flow of trade, and has contributed greatly to the maintenance of trade at a high level between the two countries.

The system of exchange control in *Japan* is unique. There was what is called a "military rate of exchange" having an extremely limited scope. Dollars could be converted into yen at this rate (which remained at 270 yen to one U.S. dollar since May, 1948) but yen could not be reconverted into dollars. Such conversion could not be used, however, for the export of commodities.

For purposes of international merchandise trade there was no single or fixed rate of exchange between yen and dollar or any other currency. SCAP received all payments from foreign dealers for exports and made all payments to them for imports in U.S. dollars or other appropriate currency. The domestic purchaser or seller made or received payment, as the case might be, in yen. For this purpose the ratio between yen and the foreign currency was different for different types of imports or exports. The ratio approved by SCAP for any particular type of transaction was an important factor on which the success of negotiations between the domestic and the foreign dealer depended, for this ratio determined how much the local dealer had to pay in the case of imports or to receive in the case of exports. This made foreign trade on private account more cumbersome and complicated than it would have been otherwise. But it was inevitable, for, as a result of the isolation of the Japanese economy for more than a decade, the internal cost-price structure was not in harmony with the rest of the world. It had been further distorted by the fact that in the case of many industries, in which the output is abnormally low, the unit costs are extremely high.¹

The Philippines has a favourable balance of payments, thanks to heavy disbursements made by the United States Government for various purposes. It, therefore, has large dollar resources. The country could afford to have an unfavourable balance on current trade account, and the imposition of exchange control was not considered necessary. In December, 1948, however, in order to conserve foreign exchange resources for the economic development of the country, an import control was introduced to restrict the import of luxury goods and of articles considered non-essential.

In 1946 there was great disparity between the official and the free market rates of exchange in *Siam*, the baht being very much over-valued at the official rate. The obligation to sell foreign exchange proceeds to

¹ A fixed rate of 360 yen to one U.S. dollar was introduced in April, 1949.

the Bank of Siam at the official rate encouraged smuggling of export goods and discouraged their export through normal channels. In order to remedy the situation the foreign exchange and trade regulations were considerably modified from time to time during 1946. Some of the important features of these modifications were as follows:

The obligation to sell foreign exchange proceeds to the Bank of Siam at the official rates was abolished except for rice, tin, teak, rubber and cement. 100 per cent of the proceeds in the case of rice and cement, 50 per cent in the case of tin and teak, and 20 to 25 per cent in the case of rubber were to be surrendered at the official rates. Foreign exchange could be purchased from the Bank of Siam at the official rates for the import of certain priority goods. Authorized banks were allowed to buy, sell and remit foreign exchange. The existence of a free market was thus officially recognized.

During 1947 and 1948 the exchange control was exercised more or less on the same lines as in 1946. In March, 1948 the priority system of granting foreign exchange at the official rates was abolished. Since then exchange can be purchased at that rate only for the import of fuel oils and lubricants, for educational purposes, for the requirements of public health bodies and for remittances to non-resident shareholders of the dividends of public utility companies registered in Siam. The export of teak was freed from exchange control. The existing arrangements have permitted foreign trade to remain at a reasonably high level and at the same time have enabled the Government to earn a large revenue by the purchase, at the official rate, of a part of the foreign exchange acquired.

RELATIONSHIP WITH THE INTERNATIONAL MONETARY FUND

Of countries of the region, China, India and the Philippines are members of the International Monetary Fund.¹ In accordance with the obligations of this membership, India and the Philippines fixed the values of their currencies in terms of gold. These values have not been altered. China, because of its peculiar circumstances, has been varying its rate of exchange from time to time. When the currency reform of 19 August, 1948 was introduced, the rate of exchange of G.Y. to the U.S. dollar was fixed at U.S.\$1 = G.Y.4, and that with sterling at £1 = G.Y.12.

Siam's application for the membership of the Fund was accepted on 1 October, 1948, and formal admission followed in 1949. Pakistan's application for membership is still pending. It seems that Pakistan has not pressed for an early decision on the application, since it has fairly large

¹ Membership of the International Monetary Fund automatically involves membership of the International Bank for Reconstruction and Development.

balances of foreign exchange and is in no immediate need of accommodation from the Fund.

India purchased 52 million U.S. dollars from the Fund up to 10 December, 1948. This was necessitated by India's current deficit in hard currency, which is mainly the result of having to import large quantities of food from hard-currency areas.

SUMMARY

There is considerable diversity in the monetary systems of the countries of the AFE region. China, India, Pakistan, the Philippines, Siam and Japan have central banks which act as the currency authority in each case. Burma has a central bank but it is not a bank of issue. Note issue in Burma and Ceylon is entrusted to Currency Boards which do not perform other central banking functions. In Malaya the notes are issued by a Currency Commission and are legal tender in a number of territories, namely, the Federation of Malaya, the Colony of Singapore, Brunei, North Borneo and Sarawak. The Currency Commission has no responsibilities in respect of credit control. Similarly, in Indochina, the proposed Currency Board would be only for the issue of currency and would not perform any other central banking functions; like the Currency Commission of Malaya, its note issue would be legal tender in a number of territories, namely, Viet-Nam, Cambodia and Laos. Notes are issued at present by the Banque de l'Indochine which is a private bank. In Indonesia, note issue is the responsibility of the Bank of Java which is also a private bank. In addition, there is also the Government note issue. In Hong Kong the note issue is not unified but is entrusted to three private banks. Even in the case of countries having central banks, the powers of the central bank in respect of note issue vary considerably from country to country.

China, Siam and Japan have independent currencies which are not linked to any other currency. In the cases of India, Pakistan, Burma and Ceylon, there exists a *de facto* link with sterling. But the volume of currency in circulation in each of these countries is not entirely governed by the sterling reserves of the currency. Malaya and Hong Kong are on the automatic sterling exchange standard, and changes in note circulation are determined entirely by their balance of payment position. Indochina under the new currency system would have a modified form of exchange standard. The Philippines is not on the dollar exchange standard but the currency is linked to the dollar and the rate of exchange with the dollar cannot be altered except under certain conditions.

The lack of uniformity in the monetary systems of the countries of the region is quite in keeping with the special circumstances and the varying requirements of the economy of each country.

There is a strong tendency to give greater powers to the note issuing authority to enable it to manage the currency. This is probably a desirable development, for money should rightly be regarded as an "instrument" to be used in the best interests of the country. It is, however, necessary that the powers of this instrument should not be overrated. There are certain limits within which it can work and which can be ignored only at the risk of serious consequences. A managed currency requires certain basic conditions for its success, namely, political security, a high level of production, availability of essential requirements and a level of public expenditure which is not very much in excess of what the country can afford. In so far as these conditions are not satisfied, the control of the economy to mobilize excess purchasing power and to ensure equitable distribution of scarce supplies is essential. These are non-monetary measures on which the success of a managed currency is dependent. The importance of the non-monetary sphere of the economy for the success of a managed currency system cannot be too strongly emphasized. Besides, the monetary mechanism in a managed system is a very delicate instrument, the use of which requires great care, judgment, ability and experience, besides moral integrity and regard for the public good. Unless the currency authority is possessed of these qualities, the success of the system will be in great jeopardy.

Another important tendency is the more or less complete subservience of the currency authority to the state. The central banks of Pakistan and the Philippines, as state banks, are directly controlled by their Governments. The Reserve Bank of India, which was hitherto a shareholders' bank, has been nationalized. Government control of the bank was already more or less complete, and nationalization only regularized the existing situation. The central banks of China, Japan and Siam were already state banks. The Currency Boards of Burma and Ceylon and the Currency Commission of Malaya are government departments and are therefore under complete government control. The proposed Currency Board of Indochina is also to be government-controlled. In Hong Kong, the three note-issuing banks work under an automatic exchange standard and have no discretionary powers.

The evolution of this tendency can be easily explained. World War II created conditions in which the institution of economic controls became inevitable. Besides, the compelling need for inflationary war finance required the complete subordination of the currency authority to the government. The same tendency continued to operate after the

war owing to the increasing complexity of problems requiring government intervention in the economic sphere. As things are at present, there is no immediate prospect of the reversal of this tendency. It seems desirable, however, that in the framing and execution of monetary policy, the long-term objectives of a country's economy are not sacrificed to immediate needs. The history of the world affords numerous instances of the abuse of the monetary mechanism by short-sighted governments to the detriment of the public good. There is thus a case, at least in normal times, for the currency authority, so constituted as to act in the best interests of the community, to be reasonably free from governmental intervention.

CHAPTER IX

Banking

BANKING STRUCTURE

The modern banking systems of many countries of the region are as yet in early stages of development. They are dominated by commercial banks, and specialization of functions has not gone very far. Agricultural credit institutions, such as co-operative societies, occupy a comparatively unimportant position, and the credit facilities provided by them are not adequate. This is significant in view of the predominantly agricultural character of the economy of the region. Special institutions for industrial finance are practically non-existent, although in some countries they are springing up under government auspices. The region has to depend to a great extent on the services supplied by foreign banks.

Before the war the banking system of *Burma* consisted of the Reserve Bank of India and the branches of foreign banks. The main business of the latter was the financing of foreign trade. The year 1948 witnessed some important changes resulting in the greater participation of the Burmese in the banking business of the country. In February, 1948 the Union Bank of Burma was established to replace the Reserve Bank of India as the central bank of the country. The Burmese National Bank, a private bank owned by the Burmese, was also opened in 1948. At the end of the year there were 20 registered banks as against 13 at the beginning of 1946. Most of these banks were, however, branches of foreign banks.

The banking system of *Ceylon* consists mainly of foreign banks which are either the branches of Indian banks or of British Exchange Banks. There is no central bank.

The banking system of *China* consists of the four leading government banks—the Central Bank of China, the Bank of China, the Bank of Communications and the Farmers Bank of China—and the Central Trust of China, the Postal Remittances and Savings Bank, the indigenous banks and the foreign banks. Before the war there was no effective central control over the banking system nor was there any specialization of functions. The foreign banks and the indigenous private banks occupied

an important position in the system. During and since the war there were, however, certain important changes. The government banks assumed an overwhelmingly important position and their deposits rose from 59 per cent of the total deposits of all banks (excluding foreign banks) at the end of 1936 to 92 per cent at the end of 1946. The relative importance of foreign banks greatly declined. Functional specialization of the four government banks was decided upon in July, 1942. The right of note issue was centralized in the Central Bank of China. The Bank of China was to specialize in foreign trade finance, the Bank of Communications in industrial finance, and the Farmers' Bank of China in rural finance. The Central Bank of China has emerged as the most powerful financial institution in the country, exercising unified control over the banking system, including the other three government banks.

There was a phenomenal increase in the total number of bank offices which rose from 2,065 in 1942 to 5,859 in 1947. This does not, however, represent a healthy expansion, for most of the new banks were a mushroom growth.

The financial power of the banks was greatly reduced. Deflated by the Shanghai wholesale price index, the total deposits of government banks in 1947 amounted to only 10 per cent of what they were in 1937. This was a natural consequence of inflationary conditions under which people preferred to keep their wealth in the form of goods rather than bank deposits.

The banking system of *Hong Kong* comprised 143 registered banks in 1948, 23 of which were authorized to deal in foreign exchange. It is dominated by British and foreign banks. Besides, there are a number of small Chinese exchange shops which provide some banking facilities but which cannot be regarded as banks in the normally accepted meaning of the term. Although there is no central bank, administrative control is exercised by the Government in accordance with the Banking Ordinance promulgated in 1948.

In 1947 the banking system of *India and Pakistan* consisted of the Reserve Bank of India, the modern joint stock banks, including the foreign exchange banks, and the co-operative banks. Except in the case of local and comparatively unimportant banks, the bigger banks had their branches all over the Indian subcontinent. The system was built on the basis of the whole subcontinent as one economic unit and was under the unified control of the Reserve Bank of India. Its division into two parts after partition presented considerable difficulties. It so happened that the head offices of all except one of the important banks were located in the Indian Union. Thus, in so far as important indigenous joint stock banks were concerned, the Pakistan areas were served by

branches of Indian banks. This fact by itself would not have produced any serious repercussions, had the conditions remained otherwise favourable. But partition was accompanied by a mass exchange of populations between Western Pakistan and the adjoining Indian territories. The staff of the banks in Western Pakistan, which consisted mostly of non-Muslims, migrated to India and in consequence about 300 offices, representing about two-thirds of the total number of bank offices in Western Pakistan, closed down. The others which were still open were functioning in a small way and had greatly restricted their business. The banking services were more or less dislocated. The position, however, improved after some time. The co-operative banks, which are semi-government institutions and which are not dependent on private enterprise, did not suffer the same fate. On the other hand, the number of their offices and the scope of their business was increased to fill in, at least partially, the gap created by the closing down of the other banks.

In 1948 the total number of bank offices in Pakistan was 908, of which 745 were located in Eastern Pakistan and 163 in Western Pakistan. The banking system is dominated by foreign banks, branches either of Indian or of European banks. The development of banking, for which there is very great scope, is held up mainly for want of trained personnel. To make up this deficiency, the State Bank of Pakistan, with the co-operation of commercial banks, has made special arrangements for training promising young men for the banking profession. The commercial banks provide facilities for practical training to students who receive theoretical instruction under the auspices of the State Bank.

As regards *India*, the banking business in the country as a whole did not suffer very serious dislocation. Some of the banks, however, found that considerable parts of their assets were either frozen or lost as a result of developments in the wake of partition. To save them from ruin, the Government of India declared a moratorium for certain banks with registered offices in East Punjab and Delhi. The banking system, however, soon recovered from the shock and continued to make steady progress. The total number of scheduled banks was 99, having 3,490 offices and branches at the end of June, 1948. The number of non-scheduled banks at the beginning of the year was 685.

The banking system of *Indochina* consists of the Bank of Indochina and other banks. The former is not a central bank. It is subject to control by the Government which owns one-fifth of its capital stock. The introduction of the new currency system described in chapter VIII would result in a fundamental change in the character of this institution. It would cease to be a bank of issue. The Government would sell its holdings of the bank's stock. The latter would, however, be subject to new regula-

tions, which would ensure effective government control but which would enable it to retain its role as a bank of deposit.

The banking system of *Indonesia* consists of the Bank of Java, the Popular Credit Bank and other banks. The Bank of Java is both a bank of issue and a commercial bank.

The banking system of the *Federation of Malaya and Singapore* consists of banks which are mostly branches of foreign banks. There is no central bank nor even a clearing house.

The banking system of the *Philippines* consists of the newly-formed Central Bank of the Philippines, the Rehabilitation Finance Corporation which has absorbed the former Agricultural and Industrial Bank, the Philippine National Bank, the indigenous joint stock banks and the foreign banks. The Rehabilitation Finance Corporation and the Philippine National Bank are government institutions and occupy a predominant position in the system. The foreign banks also play an important role. Most of the banks are concentrated in Manila, and banking facilities in the provinces are inadequate.

The banking system of *Siam* consists of the Bank of Siam, which is the central bank of the country, the indigenous joint stock banks and the foreign banks. The total number of bank offices in Siam was 48 in 1948 as against 46 in 1947 and 19 in 1942. In 1947 and 1948, 50 per cent of the bank offices were located in Bangkok alone. The number of foreign banks increased from 7 in 1941 to 9 in 1947. Thus the bulk of the expansion of bank offices represents greater participation of the Siamese in the banking business of the country as compared with prewar.

The banking system of *Japan* consists of the Bank of Japan as the central bank of the country, the ordinary joint stock banks including the eight big banks, the special banks, agricultural credit co-operatives, urban credit co-operatives, the Central Bank for Agriculture and Forestry, the Reconstruction Finance Bank, the Postal Saving and the Postal Transfer Saving Bank, etc. It is very well organized as compared with the banking systems of other countries in the region and is characterized by a considerable degree of specialization of functions.

CENTRAL BANKING

China, India, Japan and Siam were already provided with central banks. Burma, Pakistan and Philippines established their central banks in the course of the year. Ceylon is also going to have one soon. There is a marked tendency for greater governmental control over the central banks and for increasing the powers of the latter over their respective banking systems.

The Union Bank of *Burma* was inaugurated on 3 February, 1948. It performs the usual central banking functions with the exception of note issue. It is a bankers' bank and also banker to the Government. It is authorized to buy, sell and rediscount bills, to make loans and advances to approved bodies and institutions on proper security, to issue demand drafts, to perform transactions in gold or bullion, foreign exchange and securities, and to act as the Government's agent for exchange control. It is a State bank, the Government owning the entire capital. It is expected to promote indigenous banking and secure the development of a healthy money market in the country.

The powers of the Central Bank of *China* have been greatly increased as a result of the abolition, on 30 October, 1948, of the Joint Board of the Four Government Banks, whose functions were taken over partly by the Central Bank and partly by the Ministry of Finance. The Board was formed in September, 1939, and was entrusted with the task of carrying out the wartime financial and economic policies of the Government. In September, 1942, the Central Trust of China and the Postal Remittances and Savings Bank were also put under its direction and supervision. It became a very powerful institution during the war. Its main functions were the adjustment of the note issue among the four banks and the joint granting of loans and discounts to government industries as well as private business concerns. With the suspension of the note issuing power of the other three government banks in July, 1942, the Central Bank of China began to hold a predominant position in the supply of money and credit, and in the course of time, the other government banks were practically reduced to the status of its subsidiaries. The abolition of the Joint Board formally confirmed this fact.

The Reserve Bank of *India* which was hitherto a shareholder's bank, has been nationalized, so that it is now formally under complete government control. Its powers over the banking system have been greatly enhanced as a result of the promulgation of the Banking Companies Ordinance, 1948.

Pakistan established its central bank, namely, the State Bank of Pakistan, on 1 July, 1948. It controls and regulates the currency, credit and foreign exchange of the country. It is a banker's bank and also a banker to the central and provincial Governments. It has the monopoly of note issue and has the right to hold the balances of other banks, to discount paper and to purchase and sell securities.

As its name indicates, it is a State bank. The Government owns 51 per cent of the share-capital and has the right to appoint the Governor, the Deputy Governors and a majority of the members of the Board of Directors.

Its relations with the rest of the banking system of Pakistan are practically on the same lines as those of the Reserve Bank of India before it. The scheduled banks are required to deposit with it 2 per cent of their time liabilities and 5 per cent of their demand liabilities. They are also required to submit periodical returns to it. It has been given additional wide powers under the Banking Companies (Control) Act 1948.

The Central Bank of the *Philippines* was inaugurated on 3 January, 1949. It has the sole right of note-issue and has the right to discount paper, hold the balances of other banks, purchase and sell securities, act as a banker to the Government and manage the public debt. Some of its special features are as follows:

It is authorized to prescribe minimum reserve ratios which banks operating in the Philippines must keep with it, provided that such ratios shall not be less than 5 per cent or more than 25 per cent for savings and time deposits and shall not be less than 10 per cent or more than 50 per cent for demand deposits. In certain circumstances it is empowered to prescribe higher ratios but not exceeding 100 per cent for any future increase in the deposits of a bank.

It is authorized to fix maximum rates of interest which a bank may pay on deposits or charge for different types of loan or other credit operations. It is empowered to fix maximum differences which may exist between its own interest or rediscount rate and the rates which the banks may charge from their customers.

It is authorized to prescribe minimum cash margins for letters of credit and may relate the size of the required margin to the nature of the transaction to be financed. It may, in particular, use its powers in this connexion to require high margins in the case of imports of luxuries or other non-essential goods.

It can issue regulations about the maximum permissible maturities of loans and investment which banks may make and the kind and amount of security to be required against the various types of credit operations of the banks.

It can fix minimum ratios which the capital and surplus of the banks must bear to the volume of their assets.

The traditional instruments of credit control are the bank rate and open market operations. Information about the scale of operations of the central banks in the open market is not available. But there is reason to believe that the central control of credit is far from effective. This is partly due to the absence of bill and security markets, which play an important role in enabling the central bank to enforce its control, and partly to the fact that the important banks have got ample resources of

their own and seldom need accommodation from the central bank. Another important factor is the absence of an effective link between the organized and the indigenous sectors of the money market. An attempt has been made to remedy the situation in some countries by vesting the central banks with additional powers.

COMMERCIAL BANKING

Commercial banking has made considerable progress during recent years, at least in some countries of the region. As will be seen in table 45, bank deposits have registered an increase. The increase is not only apparent but real, that is, after allowing for the increase in the note issue. The percentage of bank deposits to note issue increased in Ceylon and the Philippines and also in Japan. It remained constant in Siam and registered a slight fall in India and Pakistan. An examination of the clearing

TABLE 45

Note Issue, Bank Deposits and Bank Clearings (in million units of local currencies)

Country	Period	Note issue	Deposits	Bank clearings (monthly average)	Percentage of deposits to note issue	Percentage of bank clearings to deposits
Burma	Oct. 1948	387	197	150	51	76
Ceylon ^a	1946	257	607	306	236	50
	1947	223	650	349	291	54
Hong Kong ..	Dec. 1947	672	..	608	..	..
	July 1948	753	..	657	..	..
India	1947-48 ^b	12,750	10,505	4,697	82	45
	31.12.48	11,987	9,571	4,699 ^c	79	49
Japan ^d	Oct. 1947	167,665	187,888	63,180	112	33
	Oct. 1948	279,512	389,890	252,019	139	65
Pakistan	1947-48 ^e	..	1,032	..	..	..
	Dec. 1948	1,697 ^f	1,065	350	63	33
Philippines	31.12.47	770 ^h	853 ⁱ	..	111	..
	31.12.48	837 ^h	1,004 ⁱ	..	120	..
Siam ^g	Dec. 1947	2,174	768	692	35	90
	Oct. 1948	2,323	810	705	35	87

^a Data supplied by the Director of Census and Statistics, Ceylon.

^b India and Pakistan.

^c For the month of November 1948.

^d Bank of Japan, *Financial Statistics Monthly*, vol. 22; all banks' deposits.

^e From 15.8.47 to 31.3.48.

^f Excluding the India Notes still in circulation.

^g Returns published by the Bank of Siam, Dec. 1948, and data supplied by the Bank.

^h Total currency circulation. Source: *Monthly Bulletin of Statistics*, United Nations, April, 1949.

ⁱ Data supplied by the Central Bank of the Philippines.

house returns also indicates an appreciable improvement in banking business, average monthly bank clearings increasing in Ceylon, India and Pakistan, Hong Kong, Siam and Japan.

The tendency for liquidity preference appears to have been arrested, at least in certain countries. The increase in the percentage of demand deposits to total deposits was negligible in Ceylon, India, the Philippines and Japan, though appreciable in Pakistan. It actually fell in the case of Siam.

In some countries of the region, particularly in Ceylon, the Philippines and Siam, the banks have to keep a fairly high proportion of their resources in liquid form. This is necessary in economies where the banking habit is not well developed. (See table 46.)

Advances and bills discounted have registered an increase in several countries. The percentage of advances and bills discounted to total deposits increased in India, the Philippines, Siam, and Japan. It fell slightly in Ceylon.

A substantial part of the assets of commercial banks consists of cash and balances with other banks. Of the other assets, loans and advances constitute by far the largest part. This indicates the importance of credit supply in banking business. The bills discounted are, however, a comparatively insignificant part of the bank portfolios. They were less than 10 per cent of the total deposits in Siam and Japan, about 2 per cent in

TABLE 46

Percentages of Demand and Time Deposits to Total Deposits, of Liquid Assets to Demand Deposits and of other Assets to Total Deposits

Country	Date	Percentage of demand deposits to total deposits	Percentage of time deposits to total deposits	Percentage of cash and balances with other banks to demand deposits	Percentage of advances and bills discounted to total deposits	Percentage of investment to total deposits
Burma	Oct. 1948	..	..	..	26	..
Ceylon	1947	90	10	45	14	27
	1948	91	9	47	12	25
India	1947-48	67	33	20	42	..
	31.12.48	70	30	16	46	..
Japan	Oct. 1947	84	16	18	70	41
	Oct. 1948	85	15	21	80	25
Pakistan	1947-48	73	27	..	..	..
	30.12.48	84	16	19	39	..
Philippines	31.12.47	73	27	68	40	8
	31.12.48	75	25	63	43	8
Siam	1947	93	7	45	46	14
	Dec. 1948	90	10	48	57	14

TABLE 47

Bank Deposits and Some Important Bank Assets
(National currency unit, 000,000 omitted)

Country	Date	Note issue	Demand deposits	Time deposits	Total deposits	Cash and balances with other banks	Advances and bills discounted	Invest- ment
Burma	Oct. 1948	387	586	64	650	265	52	176
Ceylon ^d	1947	223 ^b	657	67	724	307	91	181
China	1948	227 ^b	657	685	..	..	83	..
China	1937	..	1,317	..	..	..	..	..
India ^c	Sept. 1947	..	17,047,278	21,614	..	..	..	..
India ^c	1947-48 ^c	12,750	7,066	3,339	10,505	1,407	4,443	..
Japan ^s	31.12.48 ^c	11,987	6,662	2,969	9,631	1,073	4,421	..
Japan ^s	Oct. 1947	167,665	157,896	29,992	187,888	28,727	132,050	76,032
Pakistan ^c	Oct. 1948	279,512	331,346	58,544	389,890	70,987	311,703	96,459
Philippines ^j	1947-48 ^c	..	749	283	1,032	..	404	..
Philippines ^j	30.12.48 ^a	1,697 ^j	896	169	1,065	174	411	..
Siam ^k	31.12.47	770 ^j	620 ^j	233 ^a	853 ^a	423 ^a	340 ^a	72 ^a
Siam ^k	31.12.48	837 ^j	758 ^j	246 ^a	1,004 ^a	474 ^a	432 ^a	80 ^a
Siam ^k	1947	2,174	716	52	768	324	352	106
Siam ^k	Dec. 1948	2,403	726	84	810	345	459	109

^a Data supplied by the Central Bank of the Philippines.

^b Currency in "active" circulation.

^c The figures relate to scheduled banks only.

^d Data supplied by the Director of Census and Statistics, Ceylon.

^e From 15.8.47 to 31.3.48 (Source: *Reserve Bank Bulletin*, December, 1948).

^f *Eastern Economist*, 14 January, 1949.

^g Bank of Japan, *Financial Statistics Monthly*, vol. 22. All banks' deposits.

^h Return dated 7.1.49 and published by the State Bank of Pakistan.

ⁱ Excluding India Notes still in circulation.

^j Total currency circulation. Source: *Monthly Bulletin of Statistics*, United Nations, April, 1949.

^k Data supplied by the Bank of Siam.

India and a little over 1 per cent in Pakistan. This shows the absence of bill markets in the region. Investment in securities shows a tendency to decline in some countries. This is because of the availability of more profitable avenues of employment of funds, such as loans, advances, etc.

Detailed information about important assets and liabilities of banks in certain countries of the region is given in table 47.

An increase in bank deposits and bank clearings, a halt in the tendency for liquidity preference, and the expansion of loans and advances by the banks, are all indicative of a revival of business confidence and of a general improvement in conditions of trade and industry.

AGRICULTURAL FINANCE

Agricultural finance presents many difficult problems. On account of small-scale farming, the borrowers are numerous though the individual loans are not large. This necessitates the handling of a large number of small loans which adds to their cost. Most of the agriculturists have not got any acceptable security to offer, and banks, with their offices in towns, cannot be expected to have adequate knowledge of the financial status and credit-worthiness of borrowers living in remote and distant villages. Thus the ordinary banks are practically ruled out as a source of agricultural finance. Co-operative credit is the obvious solution. Most countries of the region have tried to develop the co-operative movement with varying degrees of success. The main cause of the slow rate of progress appears to be the low percentage of literacy amongst the cultivators and their inability to appreciate the benefits that can be derived from co-operation. The village money-lender, who frequently charges exorbitant rates of interest, continues to be the main source of rural finance. His utility as a supplier of credit could be greatly increased if he could be made a part of the banking system and thus brought under central control.

In *Burma* the co-operative societies and the money-lenders are the main sources of agricultural credit. In 1941 there were 2,051 co-operative societies (including 1,599 agricultural credit societies) having a membership of 82,000 and a working capital of Rs. 14 million. The movement was completely disorganized during the Japanese occupation. After liberation the Government found it necessary to finance the cultivators by making direct loans to them under its Agricultural Credit Scheme, which was operated by the Financial Commissioner. Efforts were, however, made to revive the old societies and to form new ones. These have met with considerable success and, by the end of July, 1948, there were 2,437 agricultural credit and marketing societies and 188 fisheries societies. A sum of Rs. 7.5 million was allotted for making advances to

agricultural credit and marketing societies for 1948. Out of this, loans worth Rs. 4.5 million had been issued by the end of October, 1948.

Ceylon has an extensive system of co-operative societies, both for the supply of agricultural credit and for other purposes. The movement had a phenomenal growth during the war. The number of societies rose from 1,300 in 1938 to 6,500 in 1947, the latest year for which information is available. The membership increased from 56,600 to 1,157,000 and the working capital from Rs. 4.5 million to Rs. 33 million during the same period. In 1947 the number of members was about one-sixth of the total population. Thus practically every family in the country was represented in the movement. The greatest expansion took place during the period 1942-45 and was accounted for by a remarkable increase in the number of co-operative stores, which afforded the best means for the distribution of scarce supplies during a period of all-round shortages.

Out of the total of 6,500 societies in 1947, about 4,000 consisted of consumers' societies and about 2,100 of agricultural credit, marketing and production societies. For the year ending 30 April, 1946, the total sales of the consumers' societies amounted to Rs. 166 million and those of the marketing and production societies to Rs. 8 million. The turnover of the central banks and the banking unions increased remarkably. The loans granted by them during 1945/46 amounted to Rs. 34 million as against only Rs. 15 million in the previous year.

In *China*, as noted earlier in this chapter, the Farmers' Bank was entrusted with the provision of finance for agriculture. In December, 1946 the Central Co-operative Bank was also established. At the end of 1947 the total loans for agricultural purposes made by the Farmers' Bank amounted to CN\$934,000 million. The greater part of this amount was advanced for financing the distribution and storage of special farm products such as cotton, silk, tobacco, etc., agricultural production and land improvement.

Agriculture plays a very minor role in the economies of *Hong Kong* and *Singapore*, and there are no specialized institutions for the provision of agricultural finance. The co-operative societies in *Singapore* are mostly for non-agricultural purposes. At the end of 1947 there were 36 societies having a membership of 13,300 and a working capital of M\$1.3 million. There are no central banks and unions. Each society has to rely on its own resources and receives no financial assistance from the Government or any other source.

The co-operative movement in *India* and *Pakistan* made considerable progress during the war. This was particularly true of the non-credit part of the movement. The consumers' societies received a great stimulus on account of the shortage of consumer goods and the

prevalence of the black market both in rural and urban areas. The producers' societies also showed a marked growth. The credit societies, however, still occupy a predominant position in the movement. In 1945/46 they accounted for 60 per cent of the membership and 73 per cent of the total number of societies.

The number, membership and working capital of societies increased by 41 per cent, 71 per cent and 54 per cent respectively during 1939-46. In 1945/46 there was one society for every 3.8 villages as against 5.4 villages in 1938/39. The population touched by the movement increased during this period from 6.2 per cent to 10.6 per cent of the total.

The progress of the movement during 1945/46, the latest year for which information is available, is summarized in table 48.

TABLE 48
Co-operative Societies in India and Pakistan

	Number of Societies (thousands)		Number of members (thousands)		Working capital (million rupees)	
	1944/45	1945/46	1944/45	1945/46	1944/45	1945/46
Agricultural societies	136.4	147.0	5,013	5,501	305	330
Land mortgage banks or societies	0.3	0.3	139	142	78	83
Non-agricultural societies	21.9	23.8	3,131	3,435	479	526
<i>Total</i>	158.6	171.1	8,283	9,078	862	939

In December, 1947, the Reserve Bank of India proposed that the following uniform standard of liquid resources should be fixed for all provincial and central co-operative banks which meet the credit requirements of the primary societies:

1. Forty per cent of deposits on call or on current account and cash credits and overdrafts sanctioned but not drawn upon;
2. Twenty-five per cent of savings deposits;
3. Twenty-five per cent of fixed deposits maturing within three months and 12½ per cent of fixed deposits maturing within six months.

As the proposal met with the more or less complete agreement of the registrars of the co-operative societies in all provinces and states, the local governments concerned have been requested to give effect to it.

The indigenous money-lender continues to be the most important source of rural credit. His domination of the rural economy has, however, somewhat declined, partly because of the improvement in the financial position of the agriculturists on account of the high prices of agricultural

produce, and partly because of the progress of the co-operative movement. The Reserve Bank of India has not yet succeeded in forging a link between the money-lender and the organized sector of the money market, as it has not been possible to persuade him to provide facilities for the inspection of his accounts by the Reserve Bank and to segregate his lending operations from other business.

The rural credit system of Western Pakistan was disorganized as a result of the migration of the indigenous money-lenders to India after partition. The Government, however, stepped in and partly filled the gap by advancing large sums of money in the form of "takavi" loans (productive loans repayable in easy instalments) to agriculturist refugees. Information about the number, membership and working capital of co-operative societies in Pakistan is not available. The activities of the co-operative banks, however, which numbered 237 in 1948, appear to have been considerably extended after partition.

In *Indochina*, agricultural credit is provided by the Chinese money-lenders and "chettys". The Indochina branch of the Credit Populaire has also resumed its activities which were slowed down by events in 1945-46 and has extended them to co-operatives and small industries.

In *Indonesia* the General Popular Credit Bank is the principal source of agricultural finance. It was established in 1934. In 1941 it had 108 local offices and 1,800 "field workers". There were 750,000 outstanding loans, representing more than 32 million guilders, about 80 per cent of which were unsecured. The prewar offices are reported to be resuming their activities in the areas under Netherlands control.

The method of granting credits is unique. Applications for loans are not examined from behind a desk in the bank's offices, but the credit requirements of the applicants are investigated on the spot in the villages or at "sessions" held at various places from time to time. The bank thus reaches those who need credit in their own localities and is thus able to supplant the usurer. Loans are granted both for production and consumption. During 1947 it granted loans worth 12 million guilders. In the first three months of 1948 its loans amounted to 7 million guilders.

The Bank also controls and assists the municipal credit institutions, called village banks and "loemboengs," which meet the credit requirements of the rural areas. This village credit system comprises about 12,900 such organizations granting loans in paddy and in small sums of money for very short periods.

In the *Philippines*, the Rehabilitation Finance Corporation, which absorbed the former Agricultural and Industrial Bank, is the most important institution for the provision of finance for agriculture. It was opened

for business in January, 1947, and up to 26 May, 1947, it had advanced P4 million for agriculture out of its total advances of P33.3 million. Information about its subsequent loans for agricultural purposes is not available.

The small farmers have to depend for their credit requirements on the userers, large landowners, and buyers and processors of agricultural products. The Joint Philippine American Finance Commission, whose report was published in June, 1947, recommended a programme of small loans to farmers based on individual farm production plans worked out jointly by the borrower and competent agricultural advisers and followed up by supervision and advice to ensure proper utilization of the loans.

In *Japan* the Agricultural Credit Co-operatives and the Central Bank for Agriculture and Forestry specialize in agricultural finance. Agricultural loans are also granted by other banks, trust companies, etc. In June, 1948, loans for agriculture, forestry, fisheries, etc., made by the various important financial institutions, amounted to Y. 26,692 million as against Y. 14,314 million in June, 1947.

INDUSTRIAL FINANCE

The banking systems of most countries of the region lack specialized institutions for the provision of finance for industry. This is so probably because the private entrepreneur finds commercial banking to be more profitable than industrial banking. Besides, the element of risk in the case of short-term loans against merchandise is much smaller than in the case of long-term loans to industry. Want of credit facilities for industry is one of the causes of the slow pace of industrialisation in the region. It seems, however, that the various aspects of the problem of industrial finance are being recognized, and either special institutions are being set up or other arrangements are being made under government auspices for meeting the credit requirements of industry. A striking feature of such institutions in India and Pakistan is the government guarantee against loss and for the payment of a minimum dividend.

In *Burma* and *Ceylon* there are no specialized financial institutions for industry, whose credit needs are, therefore, met by the ordinary banks. In the case of Burma, advances for the processing and manufacturing of food and raw materials amounted to Rs. 20 million out of Rs. 73 million of total bank advances in July, 1948. In the case of Ceylon, advances and loans to industry amounted to Rs. 29 million out of a total of Rs. 82 million of bank advances and loans on 31 December, 1948. Corresponding figures for 31 December, 1947 were Rs. 37 million and Rs. 90 million respectively.

In *China*, as a result of the functional specialization of the four government banks mentioned earlier in this chapter, the Bank of Communications was expected to specialize in industrial finance. As a matter of fact, however, the Bank of China also, in addition to its other banking business, has been providing credit facilities for industry. Information about advances to industry in recent years is not available, but in view of the certainty of loss in making long-term advances during a period of hyper-inflation, the financial assistance received by industry from the banking system must have been small, except in the case of government industries financed by government banks.

There are no special institutions for the provision of finance for industry in *Hong Kong, Malaya and Siam*.

In *India* an Industrial Finance Corporation was formed in 1948 for the purpose of making medium-term and long-term credit available to industrial concerns, particularly in circumstances where normal banking accommodation is inappropriate or recourse to capital issue is impracticable. The Corporation may grant loans or advances, guarantee loans or underwrite the issue of stocks, shares, bonds, debentures etc., of industrial concerns. The Corporation is to have an authorized capital of Rs. 100 million, part of which is to be subscribed by the Government. The Government will also guarantee the shares in respect of the principal and the payment of a minimum dividend. The Corporation may issue and sell bonds and debentures carrying interest for raising its working capital. It may also accept deposits which are repayable in not less than five years.

In *Indonesia* there is no important institution specializing in the provision of industrial finance. However, the Government made other arrangements for meeting the postwar requirements of industry. Licences were issued to individual enterprises unblocking their frozen prewar bank balances and authorizing banks to make funds available to them, not exceeding stipulated amounts with or without government guarantee. Under this system, licences were issued to industrial enterprises to the amount of 11.5 million guilders in 1946 and 14.3 million guilders in 1947. In so far as possible, allotments of foreign exchange were also granted for the import of essential equipment or raw materials. The Popular Credit Bank also granted credits amounting to 1 million guilders to industry and trade during 1947.

Pakistan is establishing an Industrial Finance Corporation, for which the necessary legislation was passed in February 1949. The Corporation will function more or less on the same lines as the Industrial Finance Corporation of India. Its purpose is to make medium-term and long-term credit available to industrial concerns. It can guarantee loans raised by

industrial concerns or underwrite their issue of stock, shares, bonds or debentures.

The Corporation will have an authorized capital of Rs. 30 million, 51 per cent of which will be subscribed by the Government. In order to raise its working capital, the Corporation may issue and sell bonds and debentures or accept deposits under conditions laid down by the Government. The shares of the Corporation will be guaranteed by the Government with regard to the principal and minimum annual dividend, as also the bonds and debentures issued by it. The Government will appoint the managing director and a majority of the members of the Board of Directors.

In the *Philippines*, the Rehabilitation Finance Corporation is a special institution for financing the rehabilitation of the economy. It provides finance for industry. From January, 1947 to October, 1948 its loans aggregated 165 million pesos. It has been decided recently to float a 50 million pesos bond issue, in addition to a similar amount issued in 1947, with a view to increasing the Corporation's capital to 300 million pesos.

In *Japan*, the Reconstruction Finance Bank is the most important institution for reconstruction finance, including finance for industry. At the end of October, 1948, it had a paid up capital (paid by the Government) of Y. 25,000 million and it had issued bonds worth Y. 72,900 million. Its loans amounted to Y. 97,359 million as against Y. 33,688 million at the end of October, 1947, representing an increase of about 190 per cent in the course of twelve months. The loans include the amounts lent for covering the deficits of certain enterprises. Loans advanced to industry by other banks amounted to Y. 57,000 million at the end of October, 1948 as against Y. 12,000 million at the end of October, 1947.

SECURITY MARKETS

Stock exchanges play an important role in mobilizing the community's savings. They impart "liquidity" and "price continuity" to stocks and shares and thus encourage the growth of the investment habit. In the absence of central planning, they determine, through their price mechanism, the direction of the community's investments. By dealing in government securities they help Governments in raising funds, and facilitate the "open market operations" of central banks. They encourage branch banking as they provide a collateral against which advances can be made without personal knowledge of the borrower's character and other affairs. Stock exchange activity, subject to certain qualifications, is an indicator of the general economic activity in a country.

Many countries of the region have no stock exchanges and cannot, therefore, avail themselves of the facilities provided by them. In fact, stock exchanges come into being only after a certain stage of economic development. They are markets for stocks, shares and other securities which become available when a country has achieved a certain measure of industrialisation or when other corporate activity has been well developed. Thus lack of stock exchanges in some countries of the region only indicates the under-developed character of their economies. However, the question as to whether they could be usefully set up in some countries requires examination.

Stock exchange facilities are available in several countries of the region. In India there were as many as 21 exchanges, and the value of the securities listed on them, including Government securities, was estimated at Rs. 28,000 million in 1945. Bombay and Calcutta exchanges are the most important. Many exchanges work without proper rules of business, while in some cities street markets exist side by side with them. In China, since the war, there are two stock exchanges, in Shanghai and Tientsin. Shanghai Stock Exchange is by far the more important. It was organized by an order of the Executive Yuan in May, 1946 and was opened for business on 16 September, 1946. It is privately owned and managed and is the only exchange dealing in stocks and bonds in Shanghai. Government bonds and stocks issued by foreign firms in China are not listed on it. At the end of 1947 it had 245 licensed brokers. In Hong Kong there is one stock exchange comprising about 60 members. In Japan the Tokyo Stock Exchange is the most important security market in the country. Definite information about the number or organization of stock exchanges in other countries of the region is not available.

Stock exchange speculation has been the subject of a good deal of criticism all over the world. Within certain limits speculation is not only unobjectionable but eminently desirable, as it makes for price continuity and provides liquidity and marketability to securities. Speculative purchases, when the supply temporarily exceeds demand, and sales when demand exceeds supply, bring about a smooth transition of prices and prevent violent fluctuations. But this is so only when speculation is based on the anticipations of intelligent and well-informed speculators. The case is different when the uninformed enter the field in a spirit of sheer gambling. Again, the speculators may try to manipulate the market in order to create such conditions of demand and supply as to make the price different from what it would have been in the normal course of events. It is such speculative practices as these which are undesirable.

There has been a growing realization in *India* that the working of the stock exchanges left much to be desired. Therefore the Government

deputed an expert to study the matter. His report was published in July, 1948. It recommended the regulation and control of the stock exchanges with a view to preventing some of the glaring abuses. It also emphasized that the security and investment markets were closely connected and that it was not possible to control the one without controlling the other. Hence the appointment was recommended of a semi-judicial National Investment Commission to be entrusted with the control of both the security and investment markets. No action has been taken by the Government on the report.

The year under review witnessed a fall in the value of securities in India. The Economic Advisor's Index Number of government securities registered a fall of 2.5 points, that is from 117.3 on 6 December, 1947 to 114.8 on 4 December, 1948. As regards industrial securities the index number fell during the same period from 168.9 to 156.6 in the case of fixed yield securities and from 184.7 to 156.7 in the case of variable yield securities. This indicates a rising trend of interest rates. The comparatively greater fall in the case of variable yield securities was due to political factors, industrial strife and uncertainty about taxation and government control over industry.

The two stock exchanges in *China* were officially closed as a part of the currency reform measures of 19 August, 1948 and have remained closed since. Before that date, however, stock exchange activity in *China* fully reflected some of the important economic developments that were taking place in the country. The flight from currency greatly increased the demand for stocks and shares, and raised their prices to great heights. Subject to this general tendency, however, the prices of Chinese industrial shares fluctuated with the fortunes of the various industrial concerns. Their prices went down when the earning prospects were small on account of the lack of raw materials and high cost of labour, and went up when conditions became more favourable on account of the supervision of the commodity markets, inspection of warehouses and suppression of trading in foreign securities. The prices of bank shares were not subject to as great fluctuations because their earning prospects were not dependent on the supply of raw materials. Foreign securities were very much in demand till 12 May, 1948, when the Central Bank of *China* issued a directive that foreign securities could not be exported without Government permission and that their sale proceeds and dividends must be surrendered to the Government.

The values of stocks and shares in *Hong Kong* have risen greatly since 1946. This has been due, partly to the generally prosperous conditions which have existed in *Hong Kong* and which have been reflected in the profits of local companies, and partly to a fall in the value of

money. The market remained dull during 1948. This has been ascribed to the uncertain political conditions prevailing in China which have resulted in the public's preference for cash over investment. The business handled by the Stock Exchange during 1948 amounted to HK\$160 million. Comparative figures for earlier years are not available. Forward purchasing and selling were prohibited to reduce speculation to a minimum.

In *Singapore* the share market was dull at the close of 1948. This was so in spite of the fact that expectations of production in the case of a majority of mines, and of a rise in the price of tin, had been realized. The deterioration in confidence appears to be due to political factors.

The share market in the *Philippines* remained practically unaffected by the fall in general prices in 1948. This was probably due to the predominance of mining shares which are a type of security that can resist the tendency to falling prices.

The prices of stocks and shares in *Japan* showed an upward tendency during the months of January and February, 1948. This was partly due to a shortage of stock and partly to a recurrence of lack of confidence in the currency, resulting in a preference for shares over cash. Later in the year, prices showed a tendency to sag, and the market was extremely dull in September and October. This was ascribed to an over-supply of stock. During the last two months of 1948, however, the share market was again very buoyant. This has been attributed to a fall in black market prices, which made investors interested in shares in preference to commodities. As there was neither a shortage of marketable stock nor loss of faith in the currency, a rise in the prices of shares may be indicative of revival of business confidence. The *Oriental Economist's* general index of stock exchange securities rose from 100 in December, 1947 to 289 in December, 1948.

BANKING LEGISLATION

Legislation vitally affecting the working of the banking systems in a number of countries of the region was enacted in the course of 1948. Some of the changes are structural in character as they have resulted in greatly increasing the powers of the central banks and in bringing the private banks, even in their day-to-day working, more or less under the complete administrative control of either the central bank or the Government.

In *China* the Banking Law of September, 1947, replaced the Banking Law of 1931 and the Savings Bank Law of 1934. It comprised detailed provisions governing different kinds of banks, e.g., commercial banks, savings banks, industrial banks, trust companies, native banks and foreign

banks. The actual significance of this law, however, was over-shadowed by the numerous emergency regulations, which were enforced as exchange control or anti-inflationary measures. Balances of all government institutions, which might previously be deposited with government banks, were to be transferred to the Central Bank. As part of the currency reform measures in August, 1948, new regulations were made affecting commercial banks and trust companies, but these became ineffective with the subsequent collapse of the currency.

A Banking Ordinance was introduced in *Hong Kong* in 1948. Until then there was no banking legislation. The Ordinance provides that no banking business shall be conducted in the Colony except by a company licensed for the purpose. The grant of a licence may be refused without assigning any reasons. The Government has been given wide powers for the control and regulation of banking and has been authorized to order a licensed bank to refrain from carrying on banking business. The Ordinance was considered necessary because of the establishment of a large number of banks after the war, many of which possessed inadequate capital or carried on only speculative business which was often in contravention of exchange and trade regulations in force in the Colony.

After its liberation from Japanese occupation, *Hong Kong* was faced with the question of pre-occupation debts which had been repaid during the occupation period. The problem was a very complicated one, for in some cases the debts had been repaid in *Hong Kong* dollars, in others in occupation currency. The latter had had an official value in terms of *Hong Kong* dollars but its real purchasing power had not been constant and had declined rapidly with the passage of time. In cases where repayment had been made in occupation currency at the official rate of exchange, an important factor requiring consideration was the actual purchasing power of the occupation currency at the time of repayment. Again, in some cases repayment had been made to the creditors and in others to liquidators appointed by the occupation authorities.

A moratorium on pre-occupation debts was announced soon after liberation and it remained in force for over three years. As a result of its operation, debts, with a few exceptions, could not be enforced by law, dealings in securities required the previous permission of the Finance Controller, those in land being also generally restricted. The moratorium was lifted in 1948 by a proclamation issued under the Debtor and Creditor (Occupation Period) Ordinance, the main features of which are as follows:

All payments in respect of pre-occupation debts made during the occupation period have been validated wholly where such payment was made in *Hong Kong* dollars, even to the enemy, and partly, according

to a revaluation scale, where payment was made to a liquidator in occupation currency. Interest on such debts is limited to 4 per cent per annum. There is provision for relief in special circumstances. Securities given to creditors and released by the occupation authorities without legal discharge of the debt, remain in the original charge and must be reinstated or replaced. From the very nature of the problem, there were bound to be cases of hardship. The Ordinance, therefore, has not satisfied all the parties affected. It has, however, removed an element of uncertainty from the economy of the Colony.

Malaya was faced with a similar problem. There the moratorium still continues, for it has not yet been possible to enact a law satisfactory to the various conflicting interests.

The Banking Companies Ordinance, which was promulgated in *India* in September, 1948, gives the Reserve Bank of India wide powers regarding enquiry, persuasion and admonition in its relations with the scheduled banks. It authorizes the Reserve Bank to direct banking companies to take or not to take any action relating to banking, and to lay down a policy about advances which they are under obligation to follow. These powers were justified on the ground that the policy of banks in granting advances should fit in with the over-all execution of monetary policy.

A Banking Companies (Control) Act was passed in *Pakistan* in 1948 to provide for the control of banking companies by the State Bank of *Pakistan*. The Act requires the banking companies to submit periodic returns and to maintain minimum liquid assets. The State Bank has been given wide powers for the control and regulation of the banking system. It is authorized to issue directions to the banking companies about the policy to be followed in making advances, the purposes for which advances may or may not be made, the margins to be maintained in respect of secured advances, and the rates of interest to be charged. It can require a banking company not to enter into a transaction or class of transaction or to take such action as it (the State Bank) may think fit. It is also empowered to order a change in the management of a banking company, if it is considered necessary after an inspection of the affairs of the company.

The *Philippines* Congress in May, 1948 passed a Bill to continue until eight years from the date of payment of war damages by the War Damage Commission, the debt moratorium originally declared on 8 November, 1944. The law applies to all debts and other monetary obligations incurred prior to 8 December, 1941 which are still outstanding, but does not prejudice any voluntary settlements agreed upon between debtor and creditor. Interest charges from 8 December, 1941 to 26 February, 1945

on all such debts are waived. Thereafter interest at the rate of 4 per cent per annum is to be charged, unless the obligation itself provides a lower rate. A debtor wanting to enjoy the benefits of the Act must show proper filing of his war damage claim with the Philippine War Damage Commission in Manila.

A general Banking Act was passed in the Philippines in July, 1948. It harmonizes the basic banking legislation with the Central Bank Act. It gives preference to Philippine banks over foreign banks, encourages banks to invest in government securities and broadens the field of banking activity. No foreign building and loan associations are to be permitted to transact any business, and branches of foreign banks are required to obtain a licence for carrying on their business. 60 per cent of the capital stock of banking institutions established in future must be owned by Philippine nationals who must also constitute at least two-thirds of the members of the board of directors.

The main objectives of the banking legislation described above may be briefly stated as an increase in the powers of the central banks to enable them to enforce credit policies, control of the private banks to ensure their working on sound lines in the interests of the depositors and of the country, and a solution of the problem of pre-occupation debts.

SUMMARY

There is sufficient evidence to indicate that banking in the region has made appreciable progress during recent years. Deposits as well as loans and advances have been on the increase. Nevertheless, the present state of banking services is far from satisfactory. The banking systems of most countries lack functional specialization. Institutions specializing in agricultural or industrial finance either do not exist or are seriously inadequate for actual requirements. This results in the commercial banks having sometimes to go out of their way to finance certain types of economic activity for which they are not properly qualified. The banks themselves run an unusual risk and the services which they provide cannot be regarded as satisfactory. Lack of finance is one of the major factors holding up the development of agriculture and industry in a number of countries. Expansion of banking facilities, particularly for agriculture and industry, is urgently called for. What is wanted, however, is not a mere multiplication of banks but the establishment of a comparatively small number of powerful and well-organized banks with ample resources and having, if necessary, a large number of branches. This would ensure both economy and efficiency.

Foreign banks occupy an important position in the banking structure of the region. They specialize in foreign trade finance in addition to or-

dinary banking business. They provide certain essential services for which the indigenous banks either lack the resources or the ability and experience. These services are doubtless an important part of the region's invisible imports, causing an appreciable drain on foreign exchange.

Many countries of the region have no security markets at all. In others where they do exist, their organization and working leave much to be desired. In view of the important role played by them in mobilizing the community's savings and thus promoting the economic development of countries mainly dependent on private enterprise, the question of setting them up where they do not exist, and of improving the working of the existing markets, deserves careful consideration.

The problem of pre-occupation debts in the case of countries that were occupied by the Japanese during the war is being tackled differently in different countries. In Hong Kong the moratorium on pre-occupation debts was lifted during 1948. In the Philippines the debt moratorium is to continue until eight years from the date of payment of war damages by the War Damages Commission. In Malaya and Singapore no definite decision has yet been arrived at and the moratorium still continues.

The year under review witnessed a marked tendency for the establishment of central banks. Three countries, namely, Burma, Pakistan and the Philippines, now have central banks of their own, and another, Ceylon, will have one shortly. The tendency is easily explained. A central bank is an institution that can ensure the freedom of a country's monetary and banking systems from external domination or control. It is almost indispensable for the management of currency which has become essential under existing conditions. In addition to the usual central banking functions, namely the unification of currency and credit controls, the centralization of currency and banking reserves etc., it provides many other facilities such as the management of the public debt and the administration of exchange control which have assumed very great importance in recent years.

An important development is the subordination of the central banks to their respective Governments. The central banks established by Burma, Pakistan and the Philippines are State banks. Those of China, Japan and Siam were already State banks. The Reserve Bank of India, which was hitherto, at least in form, a private shareholders' bank, has been nationalized and placed under complete government control.

There has been a noticeable tendency to increase the powers of central banks. Legislation passed during 1948 has conferred very wide powers on the central banks of India, Pakistan and the Philippines and has brought the private banks more or less under their complete administrative control. The freedom of the private banks has been greatly

curtailed, and even their day-to-day working can be interfered with. The grant of such powers to the central banks has been justified on the ground that the usual methods of credit control through the bank rate and open market operations have proved to be ineffective under the existing organization of the banking systems. An essential condition of success, however, is that these powers are used with care, and, in particular, in such a manner as will not curb individual initiative and judgment on the part of the private banker. Otherwise, instead of promoting the development of banking on sound lines, the central banks may actually prove to be an obstacle to progress.

CHAPTER X

Public Finance

MAGNITUDE OF GOVERNMENT BUDGETS

Since the war there has been a great expansion of government activities in many countries of the region. Owing to unsettled conditions and civil disorders, defence expenditures were not substantially reduced, while certain functions taken over by Governments as war exigencies continued to be performed by the civil administration after the war. In addition, there is a widespread demand for economic development in which the Government is not only to play the role of a promoter but also that of an active participant. Despite these factors, which call for large government outlay, post-war budgets of the war-devastated countries of the region are found to be relatively low in terms of prewar prices, especially for the financial years 1946 and 1947. On the other hand, for those countries which were not directly affected by the war, there has been a continuous expansion of government budgets compared with pre-war. Table 49 presents the comparative indices, in terms of prewar prices, of government expenditure and revenue for selected countries of the region. It is important to note, however, that in certain cases, the budgetary figures do not entirely represent the Government's over-all financial position. In the abnormal period immediately after the war, many extraordinary expenditures, which were not met from the normal resources of the Government, were often excluded from the budget. Indeed, the inclusion and exclusion of certain items in the budget vary by countries as well as by years. This seriously vitiates the comparability of the data presented. Nevertheless, a rough picture may be formed by a study of the indices computed in table 49.¹

For Ceylon and India, two countries which suffered little direct damage from the war, there has been an appreciable increase in government expenditure since the war in terms of prewar prices. On the other hand, Hong Kong and Indochina registered a sharp fall. In the case of Burma and Siam, government expenditure in the first two postwar years, 1946 and 1947, fell below prewar, but in the financial year 1948/49, it increased beyond prewar. Even in Japan, the year 1946 saw a fall in

¹ For sources of data used in this chapter, unless otherwise stated, see footnotes to Table 51.

TABLE 49

Index of Government Revenues and Expenditures in Prewar Prices^a

Country	Prewar Base year	Revenue (prewar = 100)			Expenditure (prewar = 100)		
		1946	1947	1948	1946	1947	1948
Burma	1939/40	40.1	47.7	65.4	66.7	58.6	101.3
Ceylon	1938/39	170.9	176.2	173.9	147.3	206.0	198.4
China	1936/37	60.5	31.1	104.0 ^b	118.6	91.0	136.1 ^b
Hong Kong ..	1939	32.5 ^c	66.0	65.4	37.1 ^c	57.8	71.1
India	1937/38	113.2 ^d	89.4 ^c	76.3	207.8 ^d	107.7 ^c	114.5
Indochina ...	1939	13.7	25.7	38.7	13.9	26.0	39.3
Japan	1936	64.6	97.5	105.7	89.0	104.7	103.3
Philippines ..	1938	31.1	48.8	75.6	59.8	55.8	94.0
Siam	1938/39	40.2	46.0	107.1	78.5	59.1	101.6

^a The figures refer to Central Government finance only. For detailed explanation, see footnotes to table 51 below. For lack of detailed information and/or appropriate price index, Indonesia, Malaya and Singapore are left out of the table. Pakistan, being a new country, is not included in this table.

The figures have been deflated to the prewar level by means of appropriate cost-of-living indices except for China and Japan for which retail price indices covering the same period as the revenue and expenditure figures are used. For 1948, the cost-of-living indices or retail price indices for the last month of the financial year 1947/48 or the average of several months in 1948 are used, depending upon the availability of appropriate data.

^b Projected from the half-year budget covering Jan.-June, 1948. The revenue is probably over-estimated.

^c Covering 11 months only.

^d For Undivided India.

^e On the basis of 12 months, projected from the Interim Budget for 7½ months from 15 August, 1947 to 31 March, 1948.

government expenditure,¹ but from 1947 onwards, government expenditure began to rise above the prewar (1936) level. In the case of China, the situation is such as to render accurate estimation impossible. First, the budget figures prepared in the beginning of the financial year were generally rendered obsolete by the rapid depreciation of currency, and in the absence of revised budgetary estimates or accounts figures the original budgetary figures do not reflect truthfully the actual financial position of the Government. Second, in view of the rapid rise in prices, the method of deflating annual budgetary figures by means of an annual average of the monthly price indices does not give a satisfactory result. Nevertheless, the indices for China, worked out in table 49, defective as they are, would seem to show that government expenditure since the war has exceeded prewar levels. Moreover, before the war, nearly one-quarter of the annual expenditure of the Chinese Government was used for the payment of

¹ This fall is to some extent due to the reduction of military expenditures and disappearance of expense items for colonial possessions in postwar years in the Special Accounts.

interest charges and the redemption of public debt, but since the war, as public debts have been virtually wiped out by inflation, the Government has been relieved of a large burden arising from debt services. Thus, the total resources actually available for other budgetary, mainly administrative, expenses should be much higher than a casual comparison with prewar budgets would indicate.

Apart from the fact noted above that certain extraordinary expenditures, incurred during the period of rehabilitation and reconstruction, were not included in the regular budgets, the smallness of government expenditure in terms of prewar prices may be partly attributable to the relative under-payment of government employees. Almost all countries in the region experienced a period of inflation during and after the war. In face of the continuous rise in prices, government employees were generally hard hit, as their scales of pay and allowances were not subject to re-adjustment as frequently as the changes in the price level. Since the wage-bill constitutes the main body of government expenditure, the lag in the wage-rates of government employees behind the price level naturally reduces the size of the government outlay when the latter is deflated by the price index. The fall in real wages and salaries is definitely harmful to the efficiency of the government machinery, and the need for frequent re-adjustment of wages and salaries in response to changes in the price level is, therefore, generally recognized. Provision for an increase in the remuneration of government employees was in fact made in budgets of 1947 and

TABLE 50
Index of Budget Deficits^a

Base Year 1946 = 100

	1947	1948		1947	1948
Burma	26.9	133.4		Malaya	26.9 ^c 93.5 ^c
China	64.8	63.5 ^d		Pakistan	100 ^b 160.1
India	37.8 ^b	52.1		Philippines ..	27.2 68.6 ^b
Japan	49.2	18.0		Siam	44.0 34.4

^a All indices have been deflated to the base-year price level except those for Malaya, see footnote ^c blow. For actual figures of budget deficits and surpluses, see table 51 below. For India and Pakistan, including capital expenditures.

^b Hypothetical deficit for 12 months, projected from the Interim Budget for 7½ months from 15 August, 1947 to 31 March, 1948.

^c The indices have not been deflated to the 1946 price level, as the appropriate price index is not available. The 1946 deficit covers the period 1 April to 31 December only.

^d Projected from the half-year budget for January-June, 1948. The revenue was over-estimated. Actual deficit should be larger than in 1947.

^e The large deficit in 1948/49 is due to extraordinarily heavy expenditures in that year. The budget for 1949/50 provides a surplus of 23 million pesos.

1948, but in most cases, the increase was not adequate, especially in view of the continuing rise in prices. The general expansion of government expenditure in 1948 is attributable not so much to the betterment of the treatment of government employees as to the expansion of the functions and activities of various government departments, and in some countries civil disturbance.

On the revenue side, the first year after the war saw a sharp decline in government receipts except in Ceylon and India. In the case of Indochina and the Philippines the revenue in 1946, in terms of prewar prices, fell to as low as 13.7 per cent and 31.1 per cent respectively of prewar. For China, the revenue in 1946 and 1947 reached respectively about 60.5 per cent and 31.1 per cent of prewar, but if certain extraordinary receipts, such as the proceeds realized from the sale of enemy properties, are excluded, it would fall to even lower proportions compared with prewar. Except for Ceylon, India and Hong Kong,¹ there was a general improvement in revenue collection in 1948 as compared with 1947. However, in almost all war-devastated countries, e.g., Burma, China, Hong Kong, Indochina and the Philippines, the estimated revenue for the financial year beginning in 1948, in terms of prewar prices, was still below the normal level of revenue collected before the war.

If receipts and expenditures are taken together, the budgetary situation for the countries of the region appeared to be better in 1947 and 1948 than in 1946. Table 50 gives the index of budget deficits for the three postwar years, duly deflated by price indices.

For the financial year 1948, the increase in revenue appeared to be more than offset by the increase in expenditure, with the result that, for all countries except Ceylon, Japan and Siam, the deficit of 1948 seemed to be larger than that of 1947.² In the case of China, the estimate for 1948 was projected from the first half-year budget published in the beginning of the year. It merely represented the planned figure of the Nanking Government. In view of the deteriorated condition in the second half of the year, the actual deficit was probably much larger than what had been originally provided for. For India and Pakistan, the revenue account was much improved in the financial year 1948/49. In fact, the revised estimate of Pakistan on the revenue account for 1948/49 showed

¹ For Ceylon and Hong Kong the 1947 figures are revised estimates, while the 1948 figures are preliminary estimates. It is likely that actual collection for the year 1948/49 will have exceeded the preliminary estimate. For India, the fall in the revenue index is partly due to the contraction of the territory as a result of partition and partly to the rapid rise in the prices.

² The conclusion given here is tentative because the 1948/49 figures used here are mostly original estimates or revised estimates, and when the final or accounts figures are available, the situation may be substantially changed.

TABLE

Government Revenue, Expenditure
(in million cu)

Financial year beginning in	Burma (rupees)	Ceylon (rupees)	China (CN\$)	Hong Kong (HK\$)	India ^a (rupees)
Prewar ^b Revenue	180.3	116.9	1,029.4	41.5	1,217.0
Expenditure	163.8	129.4	1,334.9	37.9	1,257.6
Surplus/Deficit +	16.5	- 12.5	- 305.5	+ 3.6	- 40.6
1942.... Revenue	..	200.0	5,267.8	..	2,353.6
Expenditure	..	186.3	24,511.1	..	4,256.9
Surplus/Deficit	..	+ 13.7	- 19,243.3	..	- 1,903.3
1943.... Revenue	..	250.6	16,517.3	..	3,028.7
Expenditure	..	232.0	57,881.8	..	5,572.7
Surplus/Deficit	..	+ 18.6	- 41,364.5	..	- 2,544.0
1944.... Revenue	..	303.9	36,315.1	..	3,994.3
Expenditure	..	278.2	172,077.9	..	6,417.0
Surplus/Deficit	..	+ 25.7	- 135,762.8	..	- 2,422.7
			(CN\$ thousand million)		
1945.... Revenue	..	383.3	1,196.5	..	4,081.9
Expenditure	..	320.4	1,258.2	..	5,890.8
Surplus/Deficit	..	+ 62.9	- 61.8	..	- 1,808.9
1946.... Revenue	283.8	457.7	2,817.6	82.1 ^d	3,361.9
Expenditure	429.2	436.7	7,191.0	85.6 ^d	5,861.5
Surplus/Deficit -	145.4	+ 21.0	- 4,373.4	- 3.5 ^d	- 2,499.6
1947.... Revenue	319.4	519.0	12,135.0	150.1	1,787.7 ^t
Expenditure	356.4	676.0	46,004.1	120.1	2,421.8 ^t
Surplus/Deficit -	37.0	- 157.0	- 33,869.0	+ 30.0	- 634.1 ^t
1948.... Revenue	459.4	534.8	56,280.9 ^e	151.4	2,552.4 ^j
Expenditure	646.4	675.3	96,276.6 ^e	150.3	3,855.0 ⁱ
Surplus/Deficit -	187.0	- 140.5	- 39,995.7 ^e	+ 1.1	- 1,302.6 ^j

^a The figures refer to Central Government finance only. Prewar figures refer to accounts figures except for China and Japan for which budget figures were used; wartime figures refer to accounts figures; postwar figures refer to budget estimates except for Ceylon (1945 and 1946), Hong Kong (1945-47) and Malaya (1946-47), for which accounts figures or preliminary accounts figures are used. Expenditure includes both "ordinary" and "extraordinary" accounts. For Ceylon, it includes "loan expenditure"; for India and Pakistan, it includes capital expenditures but excludes "recoverable war expenditure" on behalf of Allied Governments and "discharge of permanent debt"; for Japan, it includes special accounts; and for Siam, it includes supplementary budgets. Revenue does not include borrowings and issue of government bonds but includes all non-recurrent receipts such as proceeds from the sale of properties.

^b Prewar years refer to:

Burma	1939/40	Indonesia	1938
Ceylon	1938/39	Japan	1936
China ^c	1936/37	Malaya	1941
Hong Kong	1939	Philippines	1938
India	1937/38	Siam	1938/39
Indochina	1939		

^c From January to June 1948. Part of the second half-year budget, 1948, known as the General Budget, was also published, but the remaining portion, known as the Special Budget, was not made public. These incomplete figures are, therefore, not presented here.

^d Eleven months only.

^e From prewar to 1946, the figures refer to Undivided India.

^f Interim Budget for the period 15 August, 1947 to 31 March, 1948.

^g The 1947 figures refer to the original estimates.

^h 1942-45 figures are more inclusive than other years so the figures are not strictly comparable.

ⁱ Not including receipts from some special accounts.

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diture and Surplus/Deficit^a

urrency units)

<i>Indo-China (piastres)</i>	<i>Indonesia (guilders)</i>	<i>Japan^b (yen)</i>	<i>Malaya (M\$)</i>	<i>Pakistan (rupees)</i>	<i>Philippines (pesos)</i>	<i>Siam (baht)</i>
115.3	596.6	7,823	137.1	..	136.0	118.2
113.6	649.0	8,432	139.2	..	139.0	138.2
+ 1.7	- 52.4	- 609	- 2.1	..	- 3.0	- 20.0
184.2	..	17,136.0	..	..	..	133.2
151.7	..	31,965.8	..	..	..	220.6
+ 32.5	..	- 14,829.8	..	..	..	- 87.4
227.1	..	27,003.2	..	..	..	211.6
176.5	..	47,458.0	..	..	..	250.5
+ 50.7	..	- 20,454.8	..	..	..	- 38.9
219.1	..	115,787.6	..	..	..	288.9
219.1	..	158,311.5	..	..	..	410.1
-	..	- 42,523.9	..	..	..	- 121.2
299.7	..	59,403 ¹	..	..	..	249.0
299.7	..	116,316	..	..	..	465.7
-	..	- 56,913	..	..	..	- 216.7
293.0	..	91,896	129.7	..	183.0	509.0
293.0	..	136,396	222.8	..	359.8	1,163.0
-	..	- 44,500	- 93.1	..	- 176.8	- 654.0
742.1	..	373,516	261.5	206.1 ²	263.2	685.0
741.1	..	432,413	286.3	494.1 ²	307.4	1,029.7
+ 1.0	- 1,930	- 58,897	- 24.8	- 288.0 ² ³	- 44.2	- 344.7
1,249.9	..	1,069,583	277.5	587.0	392.3	1,666.1
1,249.9	..	1,126,488	364.6	1,030.0	498.8	1,848.2
-	..	- 56,905	- 87.1	- 443.0	- 106.5	- 182.1

^a Budget estimates for 1948/49 as given in the table, differ from the final estimates which show smaller deficits. See Budget Speech by the Finance Minister, *The Gazette of India*, 28 February, 1949.

Source:

Burma: *Budget Estimates of the Government of Burma, 1947/48; Prime Minister's Statement on Supplementary Budget Estimates for 1948/49*, dated 3 February, 1949.

Ceylon: *The Ceylon Year Book 1948; A Six-Year Plan for Ceylon: Budget Speech, 1947/48 and Budget Speech, 1948/49*.

China: *Statistical Yearbook of the Republic of China, 1948 (Chinese Text); United Nations Document E/CN.8/13/Annex 15, Rev. 1; Central Bank Weekly*

Hong Kong: *Annual Reports of Hong Kong, 1946, 1947 and 1948*.

India: *Finance Minister's Budget Speeches, 1947/48, 1948/49, and 1949/50; Explanatory Memorandum on the Budget of the Central Government for 1947/48 and 1948/49; Reserve Bank of India, Report on Currency, 1946-47 and 1947-48; United Nations Document E/CN.8/31/Annex 16*.

Indochina: *Bulletin Statistique de l'Indochine, année 1947 et 1948; l'Evolution de l'Economie Indo-chinoise en 1947 et 1948*.

Indonesia: *Statistical Pocketbook of Indonesia, 1941*. For 1947 deficit figure, based upon Press reports.

Japan: Supreme Commander for the Allied Powers, *Summation of Non-Military Activities in Japan (Monthly)*; United Nations Document E/CN.8/31/Annex 20; *The Year Book of Japan, 1936* (English text).

Malaya: *Annual Reports of the Malayan Union, 1946 and 1947; Estimates of the Federal Revenue and Expenditure for the year 1949*.

Pakistan: *Finance Minister's Speeches on Central Budget for 1948/49 and 1949/50; Budget of the Central Government of Pakistan for the year 1949/50; Survey of Pakistan, 1947/48*.

Philippines: Data supplied by the Philippine Government.

Siam: *Statistical Year Book of Thailand, 1937/38-1938/39*; data supplied by the Siamese Government.

a small surplus, and it was the large increase in capital outlay for developmental purposes that left the budgets of both India and Pakistan with a greater deficit in 1948/49 than in 1947/48. In the case of Burma and Malaya, the increased deficit for 1948/49 was apparently due to the lack of internal stability which curtailed the tax yield and called for large expenditure to meet emergencies. Taking into account these special circumstances, one may conclude that with the exception of those countries which were suffering from civil disturbances, the region as a whole has made considerable progress in improving its financial position since the end of the war.

Table 51 gives a summary of expenditure and revenue figures of countries of the region from prewar to the financial year 1948/49. It is further examined in chapter XI.

ANALYSIS OF GOVERNMENT EXPENDITURE AND REVENUE *Expenditure*

Immediately after the war, relief and rehabilitation was the most urgent task in the war-devastated countries, while in others, demobilization and reconversion called for large government outlay. It is, however, not possible to obtain a complete picture of these abnormal expenditures. In China, for instance, goods for relief and rehabilitation purposes were largely supplied by UNRRA, and the appropriations for the operation of CNRRA, an agency created by the Chinese Government for the distribution of UNRRA supplies, were misleadingly small; amounting to only 0.4 and 2.0 per cent of total government expenditure in 1946 and 1947 respectively. For the same two years, the expenses listed by the Chinese Government under the heading of "relief and rehabilitation" accounted for only 2.0 and 2.6 per cent respectively of the total expenditure. In Burma, the cost of operating the Civil Affairs Service (Burma), created by the British military authorities during the period of re-occupation, was borne by the United Kingdom Government. In the Philippines, relief and rehabilitation were largely covered by the war-damage payments made by the United States Government under the Philippine Rehabilitation Act of 1946.¹ It is due to special circumstances such as these that the magnitude of extraordinary outlay required for re-occupation, relief and rehabilitation cannot be satisfactorily ascertained from government budgets proper.

Barring this feature of post-war finance, a comparison of prewar and postwar government budgets indicates several notable changes both

¹ The Act authorizes a total payment of P.800,000,000 for war damages. As on 30 November, 1948, a total of P.163,000,000 had been paid on private claims and a total of P.47,000,000 to the Philippine Government for public construction and repairs.

in expenditure and in revenue. First, subsequent to the formation of independent national Governments or the attainment of a higher degree of self-government, a greater share of government budget has been allotted for defence services in Burma, India, Malaya and the Philippines. In some cases, withdrawal of the troops of the metropolitan Powers necessitated the newly-established national Governments to expand their armed services, while in others, internal difficulties also compelled Governments to maintain and equip a large army to meet emergencies. In the case of India, the partition took place before its great armed forces had been completely demobilized. The subsequent arrangement to re-constitute the armed forces into two separate forces for India and Pakistan, and the need for each of the two countries to keep a large army for the maintenance of peace and order during the time of partition,

TABLE 52

*Share of Defence Service in Government Expenditure
(per cent)*

Country	Prewar ^a	Postwar Financial year beginning in		
		1946	1947	1948
Burma	14.1	8.0 ^b	19.2	17.8 ^c
Ceylon .....	..	..	1.6	1.2
China	41.0	45.9	50.7	51.5 ^d
India ^e	43.0 ^e	62.7 ^f	46.7 ^f	47.0
Japan	47.2	—	—	—
Malaya .....	..	0.1	1.5	2.4
Pakistan ^g			77.8 ^g	70.7
Philippines	12.9	18.6	20.8	13.4
Siam	25.3	..	..	..

^a Prewar years used in this table are:

Burma	1939/40	Japan	1936/37
China	1936/37	Philippines	1940
India	1937/38	Siam	1938/39

^b The expenditure on "effective defence charges" was paid by the United Kingdom War Office since 1 April, 1941 up to 31 March, 1947. The defence expenditure provided in the budget 1946/47, therefore, only covered the period 1 April to 30 September, 1947 and consequently its percentage was not as high as in 1947/48 and 1948/49.

^c Revised budget estimates.

^d Calculated from the half-year budget for January-June, 1948, with the exclusion of the item "Reserve for Cost of Living Allowance Adjustment", which, for lack of detailed information, could not be apportioned between defence and non-defence expenditure. The extremely low pay of Chinese soldiers and the reliance of the Chinese Government on lend-lease supplies and war-surplus materials are probably responsible for the fact that the percentage of military expenditure in the government budget was not as high as was generally expected.

^e For Undivided India.

^f Interim Budget for the period 15 August, 1947 to 31 March, 1948

^g Not including the capital account.

halted for a while the original programme of demobilization. In consequence, as shown in table 52, the defence expenditure for India and Pakistan ran as high as 47 per cent and 78 per cent in their respective interim budgets for 1947/48,¹ and did not fall appreciably in the 1948/49 budgets. In Burma, the defence services accounted for 19.2 per cent in the 1947/48 budget, as against 14.1 per cent in 1939/40, while in 1948/49 it was 17.8 per cent. The relatively low proportion of defence expenditure in the Philippine budget for 1948/49 is due to the abnormally high expenditure in other items in that year. In absolute amount, the defence expenditure in 1948/49 is higher than in 1947/48.

With the re-establishment of normal conditions, defence expenditure in these countries will no doubt be considerably reduced, but judging from the experience of other independent countries, its share in the future budget may continue to be higher than it was before the attainment of independence.

The region is entering an age of economic reconstruction and development. It is therefore desirable to examine the place of economic development in government outlay. Ceylon and India are the two countries which made the greatest progress in industrial development during the war. After the war, the Governments of these two nations continued to appropriate large amounts for economic development.

The budgets of Ceylon are geared to a six-year plan of economic development covering the period 1947/48 to 1952/53. In the 1947/48 budget, Rs.111.7 million from revenue were provided for economic development, and Rs.72.8 million from the loan fund were spent on agriculture, industries, posts and telecommunications, transport and works, and railways and electricity, making a total of about 34 per cent of total government outlay. In the 1948/49 budget, a total of Rs.126.6 million, or 18.7 per cent of the total revenue and loan expenditure, was to be spent under the heading "Development of National Wealth".

In India, most of the development expenditures are charged to the capital account which is kept separate from the revenue account. In 1937/38, the total expenditure on capital account, exclusive of non-development items, such as defence capital outlays, discharge of permanent debt, loans and advances, etc., amounted to Rs.32.8 million. This was increased to Rs.504.8 million,² Rs.561.8 million³ and Rs.1,124.2

¹ Not including the capital account.

² For Undivided India.

³ Interim Budget for India after partition, not including Pakistan.

million¹ in the years 1946/47, 1947/48, and 1948/49 respectively.² As compared with the expenditures from revenue, capital expenditures exclusive of non-developmental items, were equivalent to 3.7 per cent of the size of the revenue account in 1937/38, and 13.2, 30.3 and 43.7 per cent in the years 1946/47, 1947/48 and 1948/49 respectively. The largest items on the capital account are expenditures on railways and grants to Provinces for developmental projects. The phenomenal growth in the capital account is highly indicative of the tempo of economic development, pushed forward by both the Central and the Provincial Governments. In Pakistan, the same budgetary system is in use. In the Interim Budget for 1947/48, capital expenditures, exclusive of non-developmental items, amounted to Rs.39,731,000, equivalent to 9.0 per cent of the size of the revenue account. This was increased to Rs.129,982,000 equivalent to 22.3 per cent of the size of revenue account in the revised budget for 1948/49.

A similar budgetary system is in use in Indochina, where a special budget was created by a decree of 30 April, 1948 to cover the cost of rehabilitation and development. The budget is financed partly by the Treasury of the French Union and partly by the member States. The total amount approved at the Economic Conference in Dalat in December 1948 was 1,007 million piastres, equivalent to 80.6 per cent of the size of the ordinary budget.

In Burma, economic reconstruction and development was to be carried out in accordance with a Two-Year Plan of Economic Development, drawn up in 1947 and published in April, 1948. The financial requirements of this Plan are not readily ascertainable. In view of the financial difficulties facing the Government, few funds seem to have been actually available for developmental projects in the last two years. In the 1946/47 and 1947/48 budgets, capital outlay on forests, irrigation, posts and telegraphs, civil aviation and electricity, not including public works, accounted for only 1.2 per cent and 3.6 per cent respectively of total government expenditure.

In the Philippines, a comprehensive 10-year plan of economic development was prepared by the technical staff of the National Development Company under the supervision of the H. E. Beyster Corporation of the United States in October, 1947. Although private investment is expected to be at a high level, the major share of the cost of executing the de-

¹ Not including Pakistan.

² These figures are quoted here to show the relative size of the capital account as compared with the revenue account. They do not represent total government outlay on economic development, since some expenditures on economic development are charged to the revenue account.

velopment plan will have to be borne by the Philippine Government. No special capital account is kept for developmental expenditures, but most of the capital outlays are included in the extraordinary budget, as distinct from the ordinary budget. In 1937 and 1938, "outlays and investments", not including public works, accounted for 15.3 per cent and 13.9 per cent respectively of the total government expenditure, while in 1947/48 and 1948/49, "economic development" represented 14.2 per cent and 15.2 per cent respectively of the total expenditure. As the figures are not exactly comparable, it is not possible to conclude whether developmental expenditure has increased compared with prewar.

In China, economic development programmes were seriously hampered by the civil war. According to an official estimate, appropriations for economic development reached a record high level in 1939, accounting for about 40 per cent of the total budget; after the war, however, they dropped to about 20 to 30 per cent, while in 1946, they amounted to only 16 per cent of the budget.¹ These figures are not strictly comparable, as in recent years, reliance has been increasingly placed upon loans from government banks to finance capital expenditure in government industries, communications, etc.

TABLE 53
Share of Debt Service in Government Expenditure
(per cent)

Country	Prewar ^a	Financial year beginning in		
		1946	1947	Postwar 1948
Burma	10.6	2.1	2.1	..
China	23.1	1.4	3.5	4.1 ^b
India ^c	38.1	17.4	9.4 ^d	16.0
Japan	17.6	..	3.6	1.8

^a Prewar years used in this table are:

Burma 1939/40

India 1937/38

China 1936/37

Japan 1935/36

^b Half-year budget for Jan.-June, 1948.

^c Representing interest payments in revenue account only; debt redemptions were charged to the capital account.

^d Interim budget for the period 15 August, 1947 to 31 March, 1948.

From this brief account, it may be seen that a noteworthy development since the war has been the increasing share of capital outlay for economic development in the budgets of several countries of the region. Even in the case of those countries which, owing to internal difficulties,

¹ Directorate-General of Statistics, *Statistical Yearbook of the Republic of China*, Nanking, 1948 (Chinese text).

could not raise large sums for economic development, or even had to cut appropriations for such purposes, the setback may be regarded as temporary; with the re-establishment of normal conditions, economic development will almost certainly occupy an important position in their annual outlay. The question of the inflationary effect of large capital outlays, financed by borrowing, will not be discussed here. Governments are aware of the danger, and have adopted a cautious attitude in framing budgets for the year 1949/50.

A further notable change in government finance since the war has been the decreasing share of debt service in total government expenditure. Most countries of the region have been plagued by inflation, but one of its beneficial effects, at least so far as Governments are concerned, is the lightening of the debt burden. The extent to which government debt burden has been reduced can be seen from table 53.

Revenue

On the revenue side, countries of the region have relied mainly on indirect taxes, especially customs duties. Since the war, India (and also Japan) has made considerable progress in the collection of income tax, while in other countries, notably the Malayan Federation, Singapore and Hong Kong, steps have been taken to introduce income tax for the first time in their peace-time financial history. The relative importance of indirect taxes and direct taxes for countries, where complete data are available, is shown in table 54.

TABLE 54

Proportion of Direct and Indirect Taxes in Government Revenue^a

(per cent of total revenue)

	Indirect Taxes				Direct Taxes			
	Prewar ^b	1946	1947	1948	Prewar ^b	1946	1947	1948
Ceylon	56.1	63.0	68.9	66.7	16.1	22.2	18.1	21.3
China	77.1	42.6	74.3	36.6 ^c	1.6	7.5	14.6	19.0 ^c
India ^d	48.9	35.1	43.0	50.6	12.4	34.5	47.7	39.2
Japan	39.0	18.2	47.6	..	26.2	32.3	43.4	..
Philippines	68.9	70.6	63.7	58.3	13.9	15.0	20.6	15.6
Siam	45.5	..	..	..	16.1	..	..	..

^a Government revenue includes all non-tax receipts on the revenue account. The division between direct and indirect taxes, in certain cases, is necessarily arbitrary. The figures shown here, therefore, merely represent rough estimates.

^b Prewar years used in this table are as follows:

Ceylon	1936/37	Japan	1935/36
China	1936/37	Philippines	1940
India	1937/38	Siam	1938/39

^c From half-year budget, Jan.-June 1948.

^d Indirect taxes include incomes from monopolies.

Among indirect taxes, customs duties probably occupy the foremost position in all AFE countries except Japan, where, before the war, customs duties accounted for only 8 to 9 per cent of total revenue while income from monopolies was as high as 13.5 per cent. After the war, the size of the customs revenue in different countries has been variously affected by inflation and the fall in the volume of external trade. To those countries, such as Ceylon and India, where there was a high level of trade after the war, customs duties continued to provide an important source of revenue. In Brunei and Sarawak the proportion of revenue contributed by customs duties was as high as 44.8 per cent and 62.9 per cent in 1946, and increased to 53 per cent and 70.2 per cent in 1947 respectively. In the Malayan Federation, customs revenue accounted for 61.1 per cent of the total revenue in 1946/47 and increased to 75.7 per cent in 1948/49. In other countries where foreign trade came to a standstill immediately after the war or where imports were drastically restricted by trade and exchange control, customs revenue has declined considerably. In China, customs duties yielded 39.3 per cent of the total revenue in 1936/37, but fell to 11.6, 19.2 and 11.7 per cent in 1946, 1947 and 1948 (half year) respectively. In Japan, 9.0 per cent of the revenue in 1935/36 was derived from customs, but since the war, customs duties fell to insignificant proportions owing to the collapse and subsequent slow recovery of foreign trade.

Of direct taxes, income tax seems to promise great potentialities both for revenue purposes and for securing a more equitable distribution of incomes, for countries on the road to industrialisation. Before the war, income tax was collected in several countries of the region, although the scope and method of collection differed widely. In Burma, Ceylon, India, the Philippines and Japan, income tax yielded about 10-15 per cent of total revenue in the immediate prewar years, while Indonesia and Siam derived about 5.6 and 1.5 per cent of their total revenue (both ordinary and extraordinary) from income tax in 1938 and 1938/39 respectively. China started collecting income tax in 1936/37, when the yield was estimated to be only 0.5 per cent of total revenue. After the war, in Burma and Ceylon the share of income tax in total revenue decreased from 11.6 per cent (in 1939/40) and 15.0 per cent in 1936/37-1937/38) to 4.2 per cent and 12.4 per cent in 1946/47, and 3.9 per cent and 10.6 per cent in 1947/48 respectively. On the other hand, India and Japan collected a relatively large revenue from income taxes, which contributed respectively about 17.1 and 16.5 per cent in 1946/47, 25.1 and 36.4 per cent in 1947/48, and 19.0 and 38.3 per cent in 1948/49.¹

¹ For India, before 1947/48, referring to Undivided India, and for 1947/48, and thereafter, referring to the Dominion of India.

With the inclusion of corporation taxes, the share contributed to the total revenues of India and Japan would be appreciably increased. In the case of India, the remarkable increase in income and corporation taxes in 1947/48 gave rise to widespread criticism that the high level of taxation had adversely affected the incentive for private savings and investment. In consequence, several reductions in the rates of profits tax, super-tax on incomes, and income tax on companies were introduced in the financial year 1948-49, resulting in an estimated fall of the percentage of income and corporation taxes from 47.7 per cent in 1947/48 to 39.2 per cent in 1948/49.¹ It is as yet too early to appraise the effects of the tax relief on private investment.

Of other countries, the Philippines also showed an increase in the importance of income tax, which in 1940 contributed 10.8 per cent of the total revenue, and rose to 15.5 and 11.5 per cent in the budgets for 1947/48 and 1948/49 respectively. In Singapore and the Malayan Federation, income tax came into force in January 1948 and was expected to yield revenue of M.\$30,000,000 and M.\$20,000,000 respectively, but owing to delay by the legislative councils in making amendments to the original Bill and to difficulties in setting up the necessary tax-collecting machinery, no actual collection was made in 1948. In Hong Kong, a system of direct taxation was introduced in 1940 and 1941 for war purposes. After the war, on the recommendation of the Taxation Committee which was appointed to advise on measures to increase the revenue of the Colony, a new system of direct taxation was introduced under the Inland Revenue Ordinance, 1947, which provided for the collection of four separate taxes to be charged on the sources of income instead of the single tax on the total income of individuals. The four taxes thus introduced were Property Tax, Salaries and Annuities Tax, Profits Tax and Interest Tax which altogether yielded HK\$14,000,000 or about 9 per cent of the total estimated revenue during the year ending 31 March, 1948.² The success of India, and also of Japan, in developing income tax as a major source of revenue is doubtless attributable to the relatively advanced stage of their industrial development. For countries which are predominantly agricultural or are confined chiefly to primary production, it may not be easy to collect income tax along modern lines. With improvement in tax-collecting machinery, however, there seems to be ample room for increasing the income tax yield in a number of countries in the region, particularly China, where the existence of a relatively large

¹ Government of India, Finance Minister's Speech on introducing the Budget proposals for 1948/49.

² Government of Hong Kong, *Report of the Commissioner of Inland Revenue for the year ended 31 March, 1948*.

number of modern cities with industrial and commercial establishments should form a convenient basis for checking and collecting income tax returns.

METHODS OF FINANCING DEFICITS

As most countries of the region had unbalanced budgets after the war, it is of interest to see how the deficits were financed and what were the economic effects of deficit financing. In addition to central government finance, the finances of local or provincial Governments are also important, since any deficits or surpluses in local or provincial budgets will have repercussions on the national economy. However, as information on local or provincial finance is not readily available, the analysis which follows will be confined to central government finance.

As pointed out earlier, the budgetary figures, as published by Governments, do not always represent total Government outlay. Some expenditures, considered by Governments to be of a special or abnormal nature, are often not included in the regular budgets. Budget deficit, in its formal sense, was often, therefore, not identical with the total deficit actually incurred. In Ceylon, for instance, from July, 1945 to October, 1947, the operation of food control resulted in a total loss of Rs.122.8 million, which was not covered by the budget but was financed by drawing upon sterling balances. Only in 1947/48 were food subsidies included in the budget, being responsible for the very large deficit in that year. In India and Pakistan, budget deficits or surpluses often have no reference to capital budgets, which have grown in size in recent years. In India, the capital budget was 76.2 per cent of the size of the revenue budget in 1947/48, and increased to 111.3 per cent in 1948/49. The capital budget of Pakistan grew from 12.3 per cent of the size of the revenue budget in 1947/48 to 76.8 per cent in 1948/49. In China, until the latter half of 1948, when an extraordinary budget was created, the budget figures published by the Chinese Government were comprehensive in nature, but it is well known that certain outlay, mostly capital expenditure, did not appear in the budget but was financed by loans from government banks. In 1946 and 1947, the total amount of loans approved by the Joint Office of Four Government Banks was equivalent to 10.5 per cent of the size of the budget of both years.¹ This does not include loans granted directly by government banks (i.e., without clearing through the Joint Office of Four Government Banks). In Indochina, a special budget was

¹ A total of CN\$738,000 million of loans was approved by the Joint Office of Four Government Banks in 1946. In 1947, a total of CN\$4,007,000 million was approved from January to October (not including loans granted in terms of "North-Eastern Currency Notes" for expenditures in Manchuria). When projected, this gives an annual total of CN\$4,808,000 million for 1947.

prepared for economic reconstruction and development, its resources not being given in detail. In Japan, in addition to deficits in Special Accounts — the General Account being generally balanced — very large loans were granted by the Reconstruction Finance Bank. In 1947/48, the total authorized borrowings of the Reconstruction Finance Bank amounted to 60,000 million yen, larger in size than the budget deficit which was reported to be 58,900 million yen. In Siam, ordinary budgets are kept separate from extraordinary budgets; full details of the latter are not readily available.

As to the ways and means of financing government deficits, four methods are commonly in use: (1) issue of long-term loans; (2) short-term borrowings; (3) drawings on accumulated assets or reserve funds at home or abroad and (4) loans or grants from abroad.

Owing to lack of detailed information, it is not easy to give an overall quantitative analysis of the ways and means used by countries of the region to finance their deficits. In *China*, where inflation has been most rapid, government deficits were chiefly financed by direct borrowings from the Central Bank. Whenever the Ministry of Finance needed money, a form of paper known as a "Treasury Certificate" was handed to the Central Bank. This was used by the Central Bank as security for the creation of new deposits or the issue of new currency. This process of deficit financing was ineffectively offset by heavy sales of foreign exchange by the Government. Up to February, 1946, the Chinese Government also resorted to the sale of gold as a means to finance the budget deficit and curb inflation. The gold was procured in the United States out of the US\$500-million loan granted by the United States Government in 1942. In 1944, the total proceeds realized from the sale of gold amounted to CN\$17,455 million or about 11 per cent of total Government expenditure, but in 1945 and 1946, these sales brought in only CN\$10,290 million and CN\$19,598 million, or about 0.8 per cent and 0.3 per cent of total government expenditure respectively.¹ After the war, owing to the instability of the domestic currency, it was impossible for the Government to float domestic loans. In 1947, the Government planned to issue bonds and short-term treasury bills in terms of US dollars, which were to be sold on the domestic market for Chinese currency at a rate of exchange to be fixed by the Government. A total issue of US\$100 million in bonds and US\$300 million in treasury bills was authorized but the actual subscription fell far below expectations. The failure to attract private capital to government bonds and treasury bills was due partly to lack of confidence

¹ The quantities of gold sold were as follows: 1944: 30,214.6 kgs., 1945: 25,356.2 kgs., 1946 (Jan.-Feb.): 6,881.5 kgs. The sale of gold was suspended on Feb. 13, 1946. Source: Directorate of Statistics, *Statistical Yearbook of the Republic of China* (Chinese text). 1948, Nanking.

and partly to the fact that the rate of exchange used by the Government for converting US dollars into Chinese currency was unfavourable as compared with the curb-market rate. In March 1948, the issue of short-term US dollar treasury bills was suspended. In April, the Government introduced a new kind of short-term interest-bearing treasury bill which was to be issued in Chinese currency and sold on the market at a discount by the Central Bank. By selling these bills at varying rates of discount, the Central Bank could compete with commercial banks and private firms in borrowing short-term capital from the market even during a period of runaway inflation. For short-term operations, this method of financing gave the Central Bank a powerful weapon to control the money market, but in financing government deficits, these bills, being short-term in nature, were of very limited use. Since the middle of 1948, the Government attached much hope to United States aid as a means of financing the budget deficit. The aid was granted by the United States Congress in April 1948 for economic rehabilitation of China, covering a period of one year from 3 April, 1948 to 2 April, 1949, and amounted to US\$275 million in addition to a sum of US\$125 million for the purchase by the Chinese Government of military supplies. Of the total economic aid, a sum of US\$35 million was earmarked for industrial and development equipment, and US\$1.2 million for administrative expenses. The rest was to be used for the import of foodstuffs, cotton, petroleum products, fertilizers, etc., the proceeds from the sale of which were to be credited to a special account kept with the Central Bank. The balance in this special account, after meeting existing commitments, such as expenses for the rural reconstruction programme, freight for relief parcels, etc., might be either frozen or utilized for relief and reconstruction payments by the Government. The latter would have the effect of reducing the government deficits; as an offset to inflation, however, it was immaterial whether the balance was frozen or applied to reduce the budget deficit. It was estimated that the amount which could be utilized in this way was of the order of US\$60-100 million, as against an estimated annual budget deficit of US\$300-400 million. To the end of January 1949, however, only about 71 per cent of the total economic aid to China had been authorized by the United States Government, and the shipments of aid supplies which had actually reached China seemed to be much less. Consequently, the total credited to the special account up to the end of 1948 was not large enough to produce any appreciable offsetting effect on the hyper-inflationary situation, although the arrival of large shipments of essential commodities, such as petroleum, cotton, rice, etc., which would otherwise have been seriously cut, helped to prevent a further deterioration of the supply position in China.

Second only to China, *Japan* has also been in the grip of runaway inflation. The Japanese Government relied almost exclusively on bank credits for financing its budget deficit. Although several forms of borrowing, namely, government bonds, treasury bills, food, silk and fuel certificates, and direct borrowings were used, the net effect was much the same, since during a period of inflation, private saving cannot be tapped by government loans, and all forms of borrowing invariably result in the creation of new money. During the years 1946/47 and 1947/48, the net increase in national debt in Japan, in fact, exceeded the published budget deficits, and the increase in note issue in turn exceeded the net increase in national debt.

In *India*, during the war, very great defence expenditure was financed by the flotation of bonds, issue of treasury bills and creation of new money against deposit of sterling securities with the Reserve Bank of India. These operations resulted in a great increase in the supply of money and a rapid rise in prices. Since the war, the financial position of the Indian Government has been improved. Deficits on revenue account were reduced in 1945/46 and 1946/47, while in the calendar years of 1947 and 1948 a surplus on revenue account was actually realized,

TABLE 55

Receipts and Disbursements of the Central Government of India
(million rupees)

	1944/45 (Accounts)	1945/46 (Revised budget)	1946/47 (Revised budget)	1947/48* (Revised budget)	1948/49 (Budget)
Total effective deficit ^b	- 2,250.5	- 1,711.4	- 2,469.2	- 634.1	- 1,249.2
Net increase or de- crease in National Debt:					
Permanent debt	+ 2,031.1	+ 2,752.1	+ 359.5	- 186.2	+ 462.2
Floating debt ..	- 239.1	-	+ 1,351.2	+ 100.0	+ 100.0
Deposit and ad- vances	+ 2,284.7	+ 1,049.4	- 254.1	- 386.6	- 339.0
	<hr/>	<hr/>	<hr/>	<hr/>	<hr/>
	+ 4,076.7	+ 3,801.5	+ 1,456.6	- 472.8	+ 223.2
Increase or decrease in balance	+ 1,826.2	+ 2,099.1	- 1,012.6	- 1,106.9	- 1,026.0

Source: *Reserve Bank of India Bulletin*. The figures given here are somewhat different from those given in table 51, mainly because of the difference in accounting treatment.

* For the period 15 August, 1947 to 31 March, 1948.

^b Including capital outlays.

although small deficits had been anticipated in the budget estimates. There was, however, an increase in outlay on capital account, although, as will be seen in table 55, total "effective" deficits were much lower than during the war.

While the deficits of the war and early postwar years were largely financed by an increase in permanent debt and short-term advances, the last three years, i.e., 1946/47 to 1948/49, saw a depletion of government balances as a means of meeting the deficits. Inasmuch as government balances were created by the deposit of government securities, the effect of drawing on these balances was not much different from that of short-term advances. The significant change in the last three years, therefore, lies not in the decrease in short-term advances but in the decline in the flotation of permanent debt as a means to finance the deficit. With the large accumulation of public bonds in private hands, the Government of India found it increasingly difficult to issue more long-term bonds in the last two years, and consequently, in 1947/48, there was actually a net reduction in permanent debt, i.e., more old bonds were redeemed than new bonds issued. It is, however, possible that, following the stabilization of the general situation after partition, the government effort to issue public loans will meet with more success so that less inflationary effect will be produced in financing developmental outlay in the coming years.

The newly-formed Government of *Pakistan* started its operations with an opening balance of Rs.810 million, of which Rs.750 million¹ represented Pakistan's share of the cash balance of the Government of Undivided India for setting up certain institutions such as ordnance factories, security printing press, radio station, etc. The Interim Budget of Pakistan for the period 15 August, 1947 to 31 March, 1948 showed a deficit of Rs.100 million (revised estimate) on the revenue account and envisaged a total expenditure of Rs.53.9 million on the capital account, while the Revised Estimates for 1948/49 anticipated a surplus of Rs.4.3 million on the revenue account and a total expenditure of Rs.447 million on the capital account, making a net effective deficit of Rs.442.7 million. To meet these deficits, permanent loans of about Rs.705.7 million were floated in Pakistan, and the outstanding balance of treasury bills at the end of 1948/49 was estimated at Rs.112.9 million.

Among other countries which incurred budget deficits, *Burma's* position is particularly serious, because it has very limited resources on which to fall back. For the first two years after the war, its very large deficits were mainly financed by advances from the United Kingdom

¹ This amount was later reduced to Rs.700 million. Details of the division of the total public debt between India and Pakistan are being worked out by the Application Committee appointed for the purpose.

Government under the terms of the Burma-United Kingdom Financial Agreement. Treasury bills were also issued from time to time to bridge the gap between revenue and expenditure. In the 1948/49 budget, the deficit increased. Besides the rigorous enforcement of retrenchment policies, mainly through the reduction in government personnel and a cut in the pay and cost-of-living allowances of government servants, the Government of Burma has announced its wish to secure further foreign loans to meet the deficit.

The postwar budget deficits of the *Philippine* Government were largely financed by (1) a loan of P120 million granted by the United States Reconstruction Finance Corporation in 1947, (2) the proceeds of the Financial Interest Protection Bonds in the amount of P10,156,000 and (3) a sum of P12,539,500 from the sale of U.S. Treasury Bonds issued to guarantee prewar military equipment loaned to the Philippines by the United States.¹ These foreign funds strengthened the Government's balance of payments position and made possible the heavy influx of foreign imports which served to lower domestic prices and reverse the inflationary tendency of the war and immediate postwar years. As an indication of the improved financial position of the Government, the budget for 1949/50 anticipated a surplus of P21 million.

Since the war, both the *Federation of Malaya* and *Singapore* have had unbalanced budgets, the deficits being largely met by the issue of domestic loans. In 1946, Malaya issued a $2\frac{1}{2}\%$ Loan of M\$7,157,100 and a 3% Loan of M\$51,581,500 and Singapore issued a 3% Rehabilitation Loan of M\$75 million. The proceeds of these loans were partly carried forward to meet the extraordinary expenditures of the subsequent years. On the other hand, the ordinary budget of *Indochina* has been reportedly balanced in the last two years, and *Hong Kong*, with the exception of the first year after liberation, realized surpluses from its revenue.

In general, countries of the region, with the exception of China and, to a lesser extent, Burma and Japan, have made steady progress in improving their financial situation since the war. Deficits still occurred in many countries, but in most cases, they were not unmanageable. With increased internal stability, less funds may be allotted for defence purposes, thus leaving more money for development projects. Also, with economic recovery and development, revenue collection may be increased.

¹ *Budget Message of President Elpidio Quirino, dated 8 February, 1949.*

PART FOUR

INFLATION AND PRICE MOVEMENTS

CHAPTER XI

Inflation and Price Movements

TRENDS DURING 1948

The position regarding inflationary and deflationary pressure in the region during 1948, as far as it can be judged by the behaviour of prices, may be summed up as follows:

China continued to be in the grip of hyper-inflation. An unsuccessful attempt was made to hold the tide of inflation by the currency and economic reform of 19 August, 1948 which is described later in this chapter.

In Ceylon, India, Pakistan and Indochina, inflationary pressure on a more or less moderate scale continued, especially in Indochina. Price trends were in general upward in all these countries. In India, the policy of decontrol of prices adopted in December 1947 seems materially to have contributed to the rise in prices in 1948. In the second half of 1948, therefore, the Government reinstated the abolished controls and by the end of the year adopted a comprehensive scheme for checking inflation. No price indices are available for North Borneo — but "the present trend is a rising one."¹

In Indonesia, Malaya, Burma, the Philippines and Siam, prices have either remained more or less stable or shown a slight tendency to decline. Whether this means that inflationary pressure in these countries has now definitely ended or even turned into deflationary pressure, is yet too early to say. In Burma, inflationary pressure developed during the latter part of 1948 on account of civil disturbance. In the Philippines, as will be seen from table 56, prices after reaching a low level in April have again tended to rise owing to a shortage of rice. Philippine prices actually reached their peak in 1945 — but rapidly declined in 1946. Since April, 1947, they have shown fairly large monthly variations, but remained over the whole period more or less stable. In Siam also, rise has alternated with fall and no clear trend seems yet visible. As far as those two countries are concerned, it is possible that prices have reached more or less a stage of

¹ Data sent for the *Survey* by the Government of North Borneo.

TABLE 56
Indices of Cost of Living and Wholesale Prices

Country	Index	Base period	1947			1948		
			March	June	September	March	June	September
Burma	C.I.	1937: 100	370	430	393	371	340	359
	(Rangoon)						391	364
Ceylon	C.I.	Nov. 1938: 100	251	259	252	251	260	261
	(Colombo)	Apr. 1939					261	264
China	C.I.	1937: 0.0001	1.1	2.5	3.8	7.4	18.8	57.4
	(Shanghai)						321.0*	6,435*
	W.P.	1937: 0.0001	1.2	2.4	3.9	10.0	29.3	99.2
	(All China)						405.0*	8,640*.b
Hong Kong	R.P.	Jan.-Mar.: 100	609	540	539	503	538	518
		1939					536	522
India	C.I.	1937: 100	254	262	282	269	268	290
	(Bombay)						290	305
	W.P.	1937: 100	293	294	302	314	314	382
	(All India)						382	384
Indochina	C.I.	Jan.-June: 100	2,359	2,378	2,706	2,802	3,047	3,291
	(Saigon)	1939					3,516	3,966
	W.P.	Jan.-June: 100	1,013	1,081	1,390	1,357	1,504	1,573
	(Saigon)	1939					1,841	2,002
Indonesia	Food	July 1938: 100	3,238	2,286	1,526	2,067	1,391	1,115
	(Batavia)						1,032	1,531

Japan	C.I.	Aug. 1946-:	100	137	190	224	282	310	344	418	459
	(All Japan)	Mar. 1947	100	2,026	2,612	5,261	6,749	7,166	7,580	13,761	15,741
W.P.											
Pakistan	C.I.	Aug. 1939:	100	397	416	..	493	441	447	452	454 ^b
(Lahore)		Week ending:	100	..	..	307	323	331	349	373	373
W.P.											
Philippines	C.I.	8 March 1939	100	456	433	414	417	392	397	415	410
(Manila)											
Siam	C.I.	Apr. 1938-:	100	1,343	1,370	1,163	1,139	1,438	1,287	1,155	1,175
	(Bangkok)	Mar. 1939	100	1,586	1,714	1,809 ^c	1,689	1,676	1,704	1,636	1,591 ^c
Singapore	C.I.	1939:	100	..	..	..	..	286	275	281	275 ^c

C.I. : Cost of living; W.P. : Wholesale prices; R.P. : Retail prices.

Source: Burma, China, India, Indochina (C.I.), Indonesia, Japan and Pakistan (W.P.) from *UN Monthly Bulletin of Statistics*; Hongkong, supplied by the Hongkong Government; Indochina (W.P.) from *Bulletin statistique de l'Indochine, année 1948*; Pakistan (C.I.) from *Karachi Commerce*; Siam, supplied by the Central Statistical Service, Bangkok; and Singapore, supplied by the Department of Statistics, Singapore.

* New series with 19 Aug., 1948 as the base period; linked to the old series by multiplying by 3,000,000.

^b October.

^c August.

stability, because of the fact that trade and exchange are largely free. Other things being equal, any growth of inflationary or deflationary pressure would therefore tend automatically to correct itself by an inflow or outflow of goods. Actually, heavy negative balance of trade has been a feature of both Siam and the Philippines from 1946 onwards although a small positive balance was registered for Siam in 1948. This more than any other factor probably accounts for the downward trend of prices in these countries. The situation in Malaya is perhaps not quite truly reflected by the index figures, since the cost-of-living index used here has been constructed in a very rough way.¹ In the case of Indonesia, the index used in the table is only an index of food prices. No complete retail price or cost-of-living index is available. It may be mentioned, however, that the prices of imported textiles have shown little or no tendency to go down. The 1947 budget showed a large deficit, but its inflationary effect was apparently more than offset by (a) an increase in domestic output brought about by reconstruction of production facilities and (b) heavy merchandise net imports.

In Japan, inflationary pressure still continues high, though it has fallen considerably since last year. In the ten months, August 1947 to May 1948, the average monthly increase in the effective consumer price index has been only 4 per cent as contrasted with 24 per cent in the three months before. The general account budget has been balanced both for the financial year 1947/48, and for 1948/49. Production indices, except for the textile industry, have been rising satisfactorily. But inflationary potential still remains in the fact that although the general account budget has been balanced, the Government's various special accounts will require large borrowings from the Central Bank which will lead to an increase in the note issue.

Taking the AFE region as a whole, it may thus be said that inflationary pressure still remains strong over most of the region. Table 56 shows in terms of wholesale prices or cost-of-living indices, to the extent that they are available, the character of this pressure.

FACTORS THAT HAVE PRODUCED INFLATION

Inflation came with the war and developed in various degrees in various parts of the region. Its violence and persistence have been a major obstacle to the recovery and reconstruction of the countries of the region.

Inflation in the region was generally caused by pressure of demand generated by budget deficits, high rates of private investment or spending of accumulated liquid assets on the one hand, and scarce supplies of

¹ The Department of Statistics which prepares it has discontinued its publication. A revised scheme is under consideration.

consumer goods on the other, and a high level of exports accompanied by relatively small imports. Expenditure on current and capital account by government, on investment by private industry, on personal consumption and on the creation of exports, are the main forms of expenditure which make up the total monetary demand for goods and services produced by the community, that is to say, for the national product. In an inflationary situation, what generally happens is that while expenditure increases under these heads, creating additional money incomes and thus additional demand, there is no compensating fall in personal consumption, that is to say, no rise in savings. The resulting rise in prices tends to adjust the demand for consumption goods to the supply by raising profits to the point where the savings resulting from these profits serve to finance the government deficits and the increased investment. In the process, however, the relative share of wages in the national income falls. Wage increases lead to a further rise in prices, and the typical vicious spiral develops of wages and prices chasing each other. Where inflation assumes serious proportions, confidence in money is shaken. The resulting desire to hoard goods contributes further to the rise of prices. Profit incentives associated with production grow weaker, since money can be made more easily by simply holding raw materials and other goods. This has been taking place in China and to a lesser extent in Japan.

Precisely to what extent different factors have contributed to produce inflation in the different territories of the region is, for lack of adequate statistical data, difficult to assess. Very little information, for instance, is available on the behaviour of voluntary savings, but there is no doubt that there has been a reduced propensity to save as a result of the fall in real income and the accumulation of wartime savings held in liquid form. Of other factors, available evidence suggests that budget deficit has been the most important. Information on budgets is contained in chapter X, in particular table 51. It is well to re-emphasize here that the budgeted expenditure very often does not represent the whole of the governmental outlay. Capital expenditure and expenditure on various special accounts are often excluded from the ordinary budget. The figures given in the table, therefore, do not show the whole of the deficits. However, even as they are, the figures give some idea of the role of deficits in generating inflationary pressure. The deficits were mostly incurred during the war for financing military expenditure, but during the postwar period such factors as internal strife, large movements of refugees, heavy subsidization of food, industrial and economic development, etc., have also contributed.

Table 51, it should be explained, deals only with the budgets of the central Governments. No account has been taken of local or provincial

budgets. Income includes income from taxes and government property. Receipts on capital account (loans or drawings from surplus funds) have as far as possible been excluded. Expenditure includes, so far as possible, expenditure on all accounts, ordinary and special, current and capital. In many cases, however, information on special and capital expenditure has been limited or lacking. The content and significance of the surplus or deficit given thus differs for different countries. Figures for 1947 and 1948 are budget estimates. Figures for the other years are actuals. In the case of India, war expenditure incurred on behalf of the British Government, the so-called "recoverable war expenditure", which was covered by the deposit of sterling securities with the Reserve Bank of India that issued rupees in India for expenditure by the Indian Government, has been excluded. But the whole process was clearly inflationary.

Table 51 shows how deficits persisted and grew in China, India, Japan and Siam. Compared with the normal prewar government expenditure in these countries, the deficits represent very large additions to money incomes. Ceylon and Indochina, the two other countries for which figures are available for all years, had surpluses for certain years, but cumulatively they also had deficits. The magnitude of the deficits would still be great even if they were adjusted to the rise in prices or compared with national income.

Regarding private investment, very little information is available. During and for some time after the war, private investment was very strictly controlled and there was little scope for expansion. Continuing shortages of materials, capital goods and foreign exchange, as well as the uncertainty about government policy towards industry, have kept the level of private investment generally low, but the relaxation of controls has given it some stimulus in certain countries, particularly in India. It is possible that in India at least, high rates of private investment during 1947 and 1948 have contributed to inflationary pressure.

The demand represented by exports has not been an important inflationary factor except in certain countries during the war, notably India and Ceylon. Concurrently, wartime imports were at a low level and, therefore, did not adequately relieve the shortages which were at the root of inflation in these countries.

Although very little information is available on savings, it is safe to say that the propensity to consume has generally increased considerably, that is to say, the propensity to save has fallen, because (a) real income per head has fallen everywhere, due to the destruction caused by the war and the difficulties of recovery, (b) there has been a considerable accumulation of liquid assets in the hands of the people, and (c) there exists a backlog of demand for durable consumption goods which

could not be satisfied during the war. In India increased propensity to consume seems to have been one of the causes of the persistence of inflation since the war. All Governments of the region have, however, taken steps to discourage consumption and encourage savings. Special facilities have been created in nearly every country for helping small savers.

In China, as already mentioned, a major factor has been the lack of confidence in money. People have been wanting to get rid of money as soon as possible and hoard goods. Expressed in another way, the velocity of circulation has greatly increased. There is a flight from money to goods, which drives up prices and money incomes still further.

Whatever the strength of these inflationary factors, their effect on prices would certainly have been less serious, if production, particularly consumer goods, could have been increased or at least restored to prewar levels. But, as was seen in earlier chapters, recovery of production has been very slow. Moreover, in no country of the region has any great increase of supplies been possible through imports, because of difficulties of foreign exchange, transport and procurement. Such increase as has taken place has not been sufficient to offset inflationary pressure from other sources. It is thus not simply the rise of monetary demand from budget deficits and other factors that has been at work, but also the low level of supply. Inflationary pressure originated largely from a decline in supplies of essential consumer goods, in particular food and textiles. It persists largely because supplies still remain inadequate. Increased supplies, whether by production or by import, thus deserve a high place among measures for checking inflation.

CURRENCY CIRCULATION AND PRICES

The way in which currency circulation and retail prices have behaved under the stress of inflationary pressure is shown in table 57. The table shows three series in terms of index numbers: (1) the movement of currency circulation, (2) the movement of retail prices, and (3) the ratio of (1) to (2), that is to say, the movement of the real value of cash holdings. Since no retail price indices are available, cost-of-living indices have been used in their place. Sight deposits have been excluded from currency circulation because of the relatively small role they play as circulating media in the region.

Table 57 shows that in Burma, Ceylon, India, Japan, Malaya, the Philippines and Siam price inflation has been appreciably less than currency inflation. Consequently, the real value of the money supply has gone up above the prewar level. In general, this may be taken as an indication of suppression of inflation by price control and other measures in the

TABLE 57
Index of Currency Circulation, Retail Prices and Real Value of Cash Holdings

Country	Base	Index of currency circulation ¹⁹⁴⁸		Index of retail prices ¹⁹⁴⁸	Index of real value of cash holdings ¹⁹⁴⁸
		Dec. 1947	Dec. 1947		
Burma	1938	476.7 ^e	444.7 (Dec.) [•]	374.7	365.9 (Dec.)
Ceylon	1938	834.5	849.2	251	261 (Aug.)
China [•]	1937	2,187.5	8,437,500 (May)	7,444,000	30,000,000 (May)
India [•]	1937	388.6	394.1 (Oct.)	269	297 (Oct.)
Indochina ^c	1939	1,357	1,525 (Dec.)	2,802	3,966 (Dec.)
Indonesia	1938	638	865 (Dec.) ^f	2,067	1,531 (Dec.)
Japan	1937	9,526	10,026 (June)	6,610	3,060 (June)
Malaya ^d	1939	326.5	327.6 (Oct.)	272 (Mar.)	282.9 (Oct.)
Philippines	1937	478	503 (June)	417	397 (June)
Siam	1938	1,449	1,548 (Sept.)	1,139	1,154 (Sept.)

Source: *International Financial Statistics*, U.N. *Monthly Bulletin of Statistics*, and *U.N. Statistical Yearbook*, supplemented by general and statistical publications from the countries of the region. Currency circulation refers to note issues. Actual figures have been converted into indices. Price indices are indices of cost of living, with source as mentioned in table 56.

[•] Currency circulation figures include rupee coins.

^c Currency circulation figures taken from data supplied to ECAFE Working Group on Financial Arrangements to Facilitate Trade.

^d Reports of Commissioners of the Currency, Singapore.

^e Note circulation figures for 1938 from Reserve Bank of India Report for 1947 and 1948 from data supplied by the Burma Government. Price indices adjusted for 1938 as base.

^f Actually this figure is for 19 January, 1949. December figure not available.

[•] Note issue figures for 1947 have been taken from A. C. Huang, "Inflation in China," *Quarterly Journal of Economics*, Aug., 1948.

countries concerned. This means a high state of liquidity. At prevailing prices the economy has more purchasing power or liquidity than it would appear to need. It is true that a rise in the real value of cash holdings does not necessarily mean suppressed inflation, since the real value may rise on account of a rise in *per capita* real income. But in this case, all available evidence suggests that real income, if anything, has fallen rather than risen. From another angle, the situation may be described as a fall in the velocity of circulation.

It is well to point out, however, that since the rise in prices is somewhat underrated by the indices used (black-market prices being largely ignored), the figures in the table tend to exaggerate the rise in the real value of cash holdings.

In China, and to a lesser extent in Indochina and Indonesia, on the other hand, it will be seen that prices have gone ahead of currency circulation, and the real value of the money supply has fallen. In China, of course, a very important factor has been the flight from the currency. In a state of hyper-inflation, people reduce their cash holdings to the barest minimum; in other words, the velocity of circulation rises very high.

FOOD AND NON-FOOD PRICES

Food prices play a key role in inflation. Table 58 gives an idea of the movement of food and non-food prices. It contrasts the general cost-

TABLE 58
Indices of Food and Non-Food Prices

<i>Base</i>	<i>Month in 1948</i>	<i>General index of cost of living</i>	<i>Index of the food section</i>
Burma: 1937 = 100.....	Aug.	378	440
Ceylon: Nov. 1938 to April 1939 = 100.....	Oct.	259	292
China ^a : 1936 = 100.....	Aug.		
	(1st half)	363,000,000	372,000,000
Hong Kong: 1939 = 100..	June	518	657
India ^b : 1939 = 100.....	Oct.	297	318
Indochina: 1939 = 100...	Oct.	3,614	3,686
Japan: Aug. 1946 to March 1947 = 100.....	Aug.	420	365
Malaya ^c : 1939 = 100.....	Nov.	275	388
Philippines: 1937 = 100..	June	397	419

Source: *U.N. Monthly Bulletin of Statistics*, *International Labour Review*, and trade and statistical journals published in the countries of the region.

^a Central Bank of China's index for Shanghai working class.

^b Bombay working class.

^c Department of Statistics, Singapore.

of-living index with the index of its food section. As already mentioned, one of the most disturbing aspects of inflation has been that food prices have risen much more than other prices in spite of the attempt to hold them down by price control measures. In certain countries prices of clothing have outrun prices of food, but house rents and prices of public services like transport, posts and electricity, have been relatively rigid and low, and consequently the index as a whole has risen less than the index of the food section. Improved supplies of food during 1948 have generally tended to reduce food prices to some extent, but as the table shows, they still stand appreciably higher than non-food prices. It is well to remember that in the preparation of the cost-of-living index, free market prices of foodstuffs are in most cases either altogether excluded or only insufficiently included. The "effective" food indices for most countries would be much higher.

EFFECTS OF INFLATION

Inflation and Foreign Trade

A high level of foreign trade can only be maintained if there is a high level of production. Since inflation tends to distort and eventually decrease production, it also tends to decrease the volume of trade. Apart from this general effect, inflation in the area has tended to create or aggravate balance of payments problems for most countries. This has been due to two reasons:

(1) Internal prices and costs in most countries have risen more than external. The resulting over-valuation of currencies has either not been corrected at all or corrected insufficiently by revision of exchange rates. In China, revisions have been made many times, but they have been belated and insufficient. In India, Burma, Ceylon and Malaya, currencies have remained pegged in terms of sterling, and with sterling, their value in free markets in terms of the dollar has tended to depreciate. The Indonesian guilder and the Indochinese piastre have also been devalued following the devaluation of the metropolitan currencies to which they are linked. The Indochinese piastre was devalued 80 per cent on 28 January, 1948. The rate with the franc remained unchanged at 17 francs to 1 piastre, but the official rate with the United States dollar was changed from 7.5 to 12.70 piastres. The Siamese baht has also been devalued. But in nearly every case, a comparison of relative price levels at home and abroad suggests that the official or the officially recognized rates of exchange (in some cases even the open market rates) have not been fully adjusted.

So far, the effects of over-valuation may not have been felt very acutely, because most internationally traded goods have been in short

supply and the market has been predominantly a seller's market. But as shortages and sellers' market conditions disappear, differences in price exchange parities will become increasingly important.

(2) Limitation of expenditure on controlled goods has diverted unsatisfied monetary demand to uncontrolled goods, some of which could otherwise have been exported. However, since the ECAFE region is mainly an exporter of raw materials and only to a limited extent of consumer goods, this "suction" of exports into the domestic market has generally been small.

There is no satisfactory method by which the over-valuation or under-valuation of a currency can be correctly measured. Both the comparison of wholesale prices and of export prices, the two methods which are generally used, have their drawbacks. However, a rough idea of the apparent over-valuation of the currencies of the region in terms of the United States dollar is given by table 59. By comparing the relative movements in wholesale prices in the United States and in countries of the region from the same base period, table 59 shows theoretical exchange rates side by side with actual rates. Where comparable indices of wholesale prices are not available, the average of the export and import price indices or the cost-of-living index has been used instead.¹

It appears that the official or officially tolerated rates of exchange have been everywhere below the purchasing power parities. The open or curb market rates have been nearer. In China, in August, 1948, the new gold yuan was undervalued; but this was exceptional and did not last for long. In general, the position appears to have been one of over-valuation in varying degrees. The disequilibrium in the balance of payments which this tends to produce has been kept in check to some extent by comprehensive systems of trade and exchange control. But the official rates of exchange have been hard to maintain, and open or black market rates exist in varying degree throughout the region.

¹ Needless to say, the method used has many limitations. Wholesale prices are often weighted heavily by the prices of imported goods and do not reflect properly the prices of goods available for export. Another general limitation is that in computing theoretical exchange rates from price ratios, we assume that other things remain unchanged. In fact, things have changed considerably during the war and postwar period. First, cost of ocean transportation has increased very much; second, there have been changes in the terms of trade; third, exchange and trade controls have been imposed in practically all countries in the region; fourth, the economy of various countries in general, and in the production sector in particular, has been changed by the war and postwar adjustments. These changes would cause deviation of the theoretical exchange parities from the price ratios. Moreover, a basic weakness is that there is no particular justification for assuming that currencies were "correctly" valued in the base period.

TABLE 59
Exchange Movements Relative to Price Movements

Country	Currency unit	Prewar rate of exchange per US\$ 2.74 (1938)	December 1947 actual rate of exchange per US\$ 3.31	Rate of exchange indicated by relative price movements per US\$			Rate of exchange indicated by relative price movements per US\$ per US\$ per US\$ 5.36	1948 actual rate of exchange per US\$ 5.36	3.31 (2nd quarter) 5.51 (2nd quarter)
				1948 actual rate of exchange per US\$ 8,287,000 (open market with certificate)	178,074 (open market without certificate)	480,000 (open market)			
Ceylon ^a	Rupee	3.33 (1937)	12,000 (official)	90,000 (open market)	8,287,000 (open market with certificate)	145,000 (curb market)	12,000,000 (curb market)	8,139,811 (August)	
China ^b	CN\$								
Hong Kong ^c	HK\$	3.3 (July, 1939)		7.90					
India	Rupee	2.68 (1937)	3.31	4.21	3.31 (September)	4.90 (September)			
Indochina	Piastre	4.01 (1939)	7.50	25.91	15.57 (October)	35.36 (October)			
Indonesia ^d	Guilder	1.88 (1938)		5.56	2.66 (June)	5.48 (June)			
Philippines ^e	Peso	1.99 (1937)	2.01	4.43	2.01 (June)	4.09 (June)			
Siam	Baht	2.33 (1938)	10.00 (official)	19.19	10.00 (official)		19.70 (open market, November)	17.73 (November)	

Source: *International Financial Statistics*, U.N. *Monthly Bulletin of Statistics*, U.N. *Statistical Year Book*, and various economic and statistical documents published in the countries of the region. Exchange rate quotations are selling rates. Unless otherwise stated price indices used are those of wholesale prices.

^a No wholesale price index being available in Ceylon, the average of export prices and import prices has been used as a substitute.

^b Actual exchange rates 1948 are for 19 August, 1948.

^c For Hong Kong, cost-of-living index has been used to indicate price movements.

^d There being no wholesale price index in Indonesia, the average of export and import price indices has been used.

^e Cost-of-living index has been used as indicating price movements in the Philippines.

It is not easy to say if some measure of devaluation is necessary. The alternatives are either to tighten import and exchange controls or to adopt a policy of substantial deflation. Each has its defects and difficulties. Any policy of stabilization which involves deflation, would be not only difficult to carry out, but would also seriously reduce the level of production and employment. Yet, devaluation also would be difficult, since a substantial proportion of the imports are food and other essential goods whose cost in local currency would rise with devaluation.

Income Distribution

In countries of the region the classes which seem to have benefited most from inflation are merchants, industrialists and agriculturists. The heavy burden of agricultural debts borne by agriculturists in countries like India and Ceylon has probably been considerably reduced. Since the region is predominantly agricultural, the rise in agricultural incomes represents a very important shift in distribution; moreover it seems to be a permanent shift. It is probable that a major part of these gains have accrued to large agriculturists. As is usual during inflation, the middle classes seem to have been the hardest hit.

It should be noted that agricultural prices, and consequently agriculturists' incomes, have been controlled in various degrees nearly everywhere. Locally grown foodstuffs have been compulsorily procured at controlled low prices. In Siam, for example, the Government, as the sole exporter of rice, has been paying to producers prices in domestic currency which represent approximately half the value, at current market rates of exchange, of the foreign exchange received. The procedure virtually amounts to a hundred per cent tax on the export price of rice. It should be added, however, that the Government's policy is to utilize these profits on rice exports largely for irrigation, public health and other benefits for rural areas. In general, it may be said that if price and other controls of this nature were absent, the rise in agricultural prices and incomes would have been greater.

Trend to Controlled Economy

The swing to controlled economy during and since the war in practically every part of the region, seems partly at least to be the result of inflation and shortages. Governments have been compelled to take recourse to control of prices and distribution, often themselves engaging in bulk buying and selling and in retail trading, to ensure equitable distribution of the limited supplies available. In Ceylon an interesting development was the taking over on a very large scale of retail sales from retail traders by co-operative stores. It represents an important change in the field of distributive trade which is also likely to stay. India, too,

witnessed a remarkable growth of co-operative retail stores. In Siam, the State undertook in 1948 the purchase and distribution of various consumer goods through state operated stores and markets. The state agency (Government Purchasing Bureau) enjoys competitive advantage over private importers and dealers inasmuch as it gets dollar exchange at the preferential rate of 10 baht for a dollar.

ANTI-INFLATIONARY MEASURES

Among anti-inflationary action taken in the ECAFE region during 1948, the Currency Reform in China of 19 August and the Indian Government's declaration and definition of its anti-inflationary policy and programme in October, deserve special mention, the one for its failure, the other for its relative success.

China adopted on 19 August a sweeping scheme of currency and economic reform aimed to end inflation and stabilize the value of the currency. A new currency, the Gold Yuan, convertible under control into foreign exchange at fixed rates and backed by a 100 per cent reserve, of which 40 per cent was to be in foreign exchange and 60 per cent in assets of state-owned enterprises, was introduced, replacing the existing Chinese National Dollar. The C.N. dollar was to be changed into Gold Yuan at the rate of one Gold Yuan for three million C.N. dollars. The note issue was to be limited to G.Y. 2,000 million. The legally prescribed gold content of the G.Y. was to be 0.22217 grams of pure gold, equal to US\$0.25. The exchange rate with the U.S. dollar was fixed at \$1=G.Y.4 and correspondingly with other currencies, except that sterling and related currencies were undervalued in relation to the official sterling-dollar rate. All gold and silver and foreign currencies held by the people were to be surrendered to the Government at the official rates before a fixed date. There was to be registration of foreign currency assets owned by Chinese citizens at home and abroad. Rigorous efforts were to be made to balance the national budget. Taxes and charges of state enterprises and public utilities were to be raised and expenditure on state enterprises was to be cut. Import quotas were to be cut by at least 25 per cent. With a view to stabilizing commodity prices, prices prevailing on 19 August (converted into G.Y.) were fixed as ceilings. Wages were to be frozen at the level prevailing in the first half of August. Government banks were to deflate their loans drastically.

Other measures adopted in this connexion were the prohibition of strikes and factory closures, the abolition of cost-of-living indices, the temporary closure of the Shanghai and Tientsin Stock Exchanges, the adjustment of the salaries of the army and civil servants, and the insti-

tution of severe penalties, including capital punishment, for offences against the new regulations.

For some time the new currency system worked successfully. But before long the position deteriorated, and on 31 October, 1948 the price ceilings which had become completely unrealistic had to be abolished. The factors which led to the breakdown of the system may be summarized as follows:

The total issue of *fapi* or legal tender notes in circulation on 19 August, 1948 was estimated to be equal to G.Y. 200 million at the rate of G.Y.1=CN\$3 millions. The permitted issue of G.Y. was 2,000 million. Thus the reform itself envisaged a possible expansion of purchasing power to the tune of 10 times its volume in circulation at the time of the introduction of the reform.

The Government continued to rely mainly on inflationary finance to meet its expenditure, which was rapidly mounting on account of the civil war. By 31 October, 1948 when the failure of the reform was officially admitted by the abolition of price ceilings, the note issue stood at G.Y. 1,595 million which represented an increase of 700 per cent compared with the *fapi* issue on 19 August, 1948.

Most commodity prices were frozen below cost. This brought about a depression in commerce and industry and the disruption of trade between urban and rural areas, for the farmers were not prepared to sell their produce at the frozen prices and so did not send it to the towns.

On 19 August, 1948, the market rate of exchange between CN\$ and US\$1 was equal to CN\$8 million. But the rate of exchange under the reformed scheme was US\$1 = G.Y.4 = CN\$12 million. The under-valuation of G.Y. made the replacement costs of imports higher than the frozen prices and this affected importers adversely.

The continued closure of the Stock Exchanges which had attracted a good deal of hot money, resulted in greater pressure on the commodity markets.

Increased production was essential for the success of the scheme. Actually there was a fall in production on account of restriction of imports, including imports of raw materials and machinery. The shortage of consumer goods inevitably had an inflationary effect.

The Government's attempt to siphon off excess purchasing power by the sale of shares of official enterprises failed for want of public confidence.

Up to 31 October, 1948 gold, silver and foreign exchange amounting to G.Y. 663 million was surrendered, and an equal amount of G.Y. was put into circulation. This represented an addition of about 230 per cent

of purchasing power as compared with the total note issue on 19 August. This factor alone exerted an enormous inflationary pressure and contributed greatly to the failure of the reform.

A number of factors, perhaps starting with the postponement of the date for conversion of foreign currencies into G.Y., combined to undermine confidence in the new currency.

The unfavourable military situation also resulted in loss of public confidence in the currency. The Government tried to restore it by ordering unlimited conversion of G.Y. into gold bullion on 22 November, 1948. But the attempt did not succeed. As the demand proved to be excessive, the amount of gold to be purchased by any individual was reduced to 10 oz. on 10 December and to 1 oz. in three months on 16 December, 1948. The sale was suspended altogether on 24 December, 1948.

India: On 5 October, 1948, the Indian Government announced a comprehensive scheme for fighting inflation. The chief features of the scheme were as follows:

1. The gap between revenue and expenditure was to be reduced to the utmost degree possible both by the Provinces and the Centre, and for the next few years efforts were to be made to secure budget surpluses.
2. All unproductive government expenditure was to be cut. A Cabinet Committee was set up to review the development plans of the Centre and the Provinces and frame a list of priorities, with a view to postponing or slowing down schemes which were not likely to be immediately productive.
3. Price and distribution control of essential commodities was to be tightened. The policy of decontrol adopted in December, 1947 had already been reversed by the reimposition of controls on cotton textiles and food grains. Further measures were now to be taken to reduce the price of sugar and ensure the better distribution of commodities like kerosene, iron and steel and cement.
4. To encourage expansion of industrial production, new undertakings were to be given higher depreciation allowances for income tax assessment and more liberal rebates in customs duty on imported raw materials, plant and machinery. As part of the same policy, steps were to be taken to increase co-operation between capital and labour. The law relating to industrial disputes was to be made uniform for the whole of the country.
5. Further steps were to be taken to increase savings. To help the small saver, the maximum permissible limits for investment in Postal Savings Banks and National Savings Certificates were

raised. It was also decided to issue Treasury Deposit Receipts for 6, 9 and 12 months to cater for institutional investors seeking short-term investment.

6. To reduce the volume of purchasing power in the hands of the public, the amount distributed as dividends by public companies was not to exceed the average for two years ending 31 March, 1948 or 6 per cent on paid-up capital, whichever was the higher. The repayment of Excess Profits Tax deposits and of refundable Excess Profits Tax was to be postponed for three years. Refunds were, however, to be allowed for purchase of capital equipment. It was also proposed to regulate the grant of advances by banks to commodity market speculators.
7. Imports of luxury goods were to be more heavily taxed.

FEATURES AND TRENDS OF PRICE CONTROL

Price control has been in operation in various degrees in all countries of the region. Generally, control seems to have been more extensive in India, Pakistan and Ceylon. It should be borne in mind that it is difficult to establish price control on an extensive scale in most countries of the region because (a) they are large in size, (b) the proportion of illiteracy among the people is very high, and (c) financially, few countries can bear the heavy cost of setting up the administrative machinery necessary for honest and efficient administration of control measures.

In general, control seems to have reached its peak in the region about 1946. During 1947 and 1948, the general trend has been one of removal or relaxation of controls. As was seen earlier in this chapter, India and China have been partial exceptions.

Prices have been controlled in so many direct and indirect ways (for instance, by controlling foreign trade and exchange, by allocating labour and materials, by paying subsidies, by controlling wages, by controlling consumers' expenditure by taxation or increased facilities for saving), that it is impossible to deal with them all in detail. However, so far as direct price control is concerned, its chief features in the region may be summed up as follows:

1. Control has been primarily applied to food, clothing, fuel, and a few other essential consumer goods. This has been supplemented in various degrees by control of important production goods such as fertilizers, agricultural implements, iron and steel, industrial fuel, cement, etc.
2. Control of price (which has generally been done by fixing a ceiling price), in order to be effective, has to be accompanied by

control of movement and distribution of the goods concerned. In the case of rice, sugar and textiles, in which the shortage has been the most acute, some system of rationing has generally been combined with price control to ensure equitable distribution. The position regarding rice rationing during 1948 was that rationing applied to the principal urban areas in India, China, Pakistan, Ceylon, Malaya, North Borneo, Hong Kong and Indonesia. In Pakistan, 6.1 per cent of the total population was subject to food rationing. In Ceylon, rationing extended largely to rural areas also. In Malaya, Ceylon and Indonesia, consumers were allowed to purchase additional quantities outside the ration in the open market. In the Philippines, rationing applied only to Manila and its adjacent areas. In China, it applied to six principal cities. There has been no rationing of rice in Burma, Indochina and Siam which are rice-surplus countries. In Siam, however, rice rationing was introduced in Bangkok for a short time with a view to tide over local shortages caused by exports. In Japan and South Korea, a strict rationing system was enforced by the occupying Power. Regarding rationing of cloth, the general trend during 1948 has been to remove and relax it.

3. Where necessary, as in the case of rice, price control has been accompanied in many cases by compulsory procurement at controlled prices by the Government of all local or imported supplies. The general system has been, as in India and Ceylon, to commandeer from the producer his whole output less his own consumption requirements. Two weaknesses of this policy, however, have been that (*a*) it has been impossible to enforce procurement fully, with the result that part of the supply has leaked into the black market, and (*b*) that the low-pegged price paid to the farmer has tended to discourage any increase in production.
4. In certain cases, and here again the most notable example is rice, the Government has become the sole importer, in order to control supplies more effectively. The Government has also taken a hand in the wholesale or retail distribution, by either starting its own shops or assisting co-operative stores to take up the work. In India, the government railways have opened their own shops. Both in India and Ceylon, food imports have largely been taken over by the state. In Siam, the Government Purchasing Bureau imports a wide range of necessities. The Government's programme is to distribute essential goods through government-operated stores and markets. In Ceylon

and Burma, distribution has been canalized largely through consumers' co-operative stores.

5. House rents in all big cities have been subject to some form of control in all countries.

The main reasons for relaxation of controls during 1947 and 1948 have been (*a*) improvement in the supply position, (*b*) high administrative cost and the partial ineffectiveness of the controls, (*c*) growing impatience of the public with them, and (*d*) the need for providing greater incentives to producers so that production may expand, and hoarded stocks, if any, may come out.

Relaxation has taken the form of outright removal of certain controls, and modification of others. Rationing of petrol, for instance, was removed in Ceylon early in 1948. Cloth rationing was also later given up. Altogether a whole host of articles were freed from price and distribution control during 1947 and 1948. In the case of rice, as already mentioned, procurement control was given up and consumers were allowed to buy extra rice off the ration in the open market. The same thing has taken place in Malaya and Indonesia. The open market price of rice in Malaya and Ceylon, it may be mentioned, has generally been double that of the ration rice. The ration scales themselves have tended to be broadened. In November, 1948 the basic daily rations of rice per head were 9.6 ounces (against 7.5 in December, 1947) in Hong Kong, 5.7 ounces (against 4.6) in Ceylon, 7.6 ounces (against 4.6) in the Mayalan Federation, and 8.3 ounces (against 4.8) in Singapore.

PART FIVE

**INTERNATIONAL TRADE AND BALANCES
OF PAYMENTS**

CHAPTER XII

International Trade

INTRODUCTION

Whereas before the Second World War the ECAFE region had a substantial export balance in its trade with the rest of the world, the immediate postwar years have seen the incurrence of large deficits by almost every country in the region. Within this total picture, a similar development has taken place in the region's trade with the United States, an over-all export balance being transformed into a serious deficit, with the consequent emergence of an acute dollar shortage. The prewar system of multilateral exchange, whereby the region's surpluses with the United States offset its deficits with other countries, has been, at least for the time being, disrupted. These developments are a direct result of wartime devastation, leading as it did to greatly reduced output and export of the staple products of the region such as rice and other cereals, sugar, fats and oils, tea and fibres.

In considering to what extent these changes may be of a lasting character, it is significant that the year 1948 saw a considerable increase in the volume of the region's trade as well as a clear and substantial improvement both in its over-all trade balance and in its balance with the United States. An important exception was China, whose exports and imports declined steeply in 1948, although its trade balance improved. In general, the improvement in the region's trade during 1948 suggests that much of the wartime change may be transitory. A significant factor affecting the future pattern of trade will be the changes in the character and direction of China's trade which may result from the most recent political changes in that country. India, with its rapidly expanding industry, may emerge as an increasingly important exporter of manufactured goods to the region, provided that it can achieve prices which are competitive in world markets. A further uncertain factor is the lines on which the economy of Japan and the character of its trade with countries of the region are allowed to develop. Recovery of Japanese trade with the region, such as it is, has definitely turned towards the prewar pattern, that is to say, supply by Japan of manufactured consumer

goods, especially textiles, in exchange for primary commodities. It rests very largely with countries of the region, by the nature of their demands, to decide whether this trend should continue or whether they should rather make increasing use of Japan's ability to supply them with the equipment which they need for their own industrial development.

There have been certain changes, however, which would seem definitely to be of a lasting character, adverse to the interests of the region, and which are largely outside the power of countries of the region to correct. These are: (i) The relatively low price of rubber. In spite of increased consumption of rubber, world capacity far outstrips probable world demand by reason of synthetic production. Therefore, the relatively low price of rubber is likely to persist and may fall even further unless international agreement is reached to maintain it. (ii) The declining demand for natural silk. World demand for natural silk, already declining before the war, is unlikely to return to anything like previous levels on account of the increasing competition of nylon, rayon and other substitutes. (iii) The decline in tin metal exports. The region's exports of tin metal (as distinct from ore) are unlikely to recover fully on account of the wartime development of a subsidized tin-smelting industry in the United States.

The first of these changes has an adverse effect on the region's terms of trade *vis-à-vis* the rest of the world, particularly in the cases of Malaya, Indonesia, Ceylon and Indochina. The second is felt mainly by China and, within the AFE region, predominantly by Japan. The third is primarily a problem for Malaya. Since natural rubber, silk and tin metal all figure among the region's staple exports to the United States, these changes, besides adversely affecting the region's over-all balance of trade position, aggravate in particular its shortage of dollars.

If this brief analysis is correct, certain of the factors responsible for the region's passive balance of trade (particularly in relation to the United States), are of a permanent character. In relation to the region's balance of payments, these probably more than offset the lasting improvement due to reduced overseas interest payments, notably on the part of India, Pakistan and Ceylon (see chapter XIII).

In these circumstances and in the light of the region's continuing, albeit declining, trading deficit, action by countries of the region on the following lines has been undertaken or is contemplated:

- (a) Continued restoration and expansion of present lines of production, especially food and certain exportable primary commodities. This will be greatly facilitated if firm demand and equitable prices can be assured by inter-governmental agreements.

- (b) Relative reduction of consumer goods imports, to be made possible by increased regional food production and by development of certain industries, especially textile manufacturing.
- (c) Development of heavy industries, where appropriate.
- (d) Vigorous measures to secure the producer and capital goods necessary for action as above.

In general it is rather early to judge the effectiveness of the region's trade and payments agreements in facilitating these objectives. Available evidence, however, testifies to their value, especially where, as in the Sterling Area arrangements with SCAP, there is an element of multi-lateral clearing. Such evidence also indicates firstly, the probable scope for further agreements with countries outside the region, especially in the supply of primary commodities in exchange for producer and capital goods needed by the region (in this connexion, trade openings in Europe call for special attention); secondly, the need for longer-term agreements in the many cases where the ability of one country to supply depends on its first securing certain goods from another country. This latter contingency may arise either where the capital goods producer first needs raw materials or where the primary producer first needs producer and capital goods, before being able to increase his output. So far as the ECAFE region is concerned, it is at present largely a case of securing producer and capital goods before output of primary commodities can be increased, and the time-lag may be considerable; hence the region's urgent need for longer-term trade arrangements.

The production and trade objectives of the ECAFE region present the advanced industrial countries with an opportunity to implement their expressed desire to help the industrially backward countries of the ECAFE region and of other parts of the world. Specific forms of action open to them are:

1. Encouragement of imports, not only of basic materials but also of luxury goods such as handicraft products and high quality silk manufactures. This applies particularly to countries with a favourable balance of payments.
2. Granting of reasonable priority in the supply of scarce producer and capital goods.
3. Provision of financial aid in the form of loans or credits. A valuable type of credit could, in effect, be provided by the long-term trade agreements outlined above.
4. Co-operation in the conclusion, where appropriate, of inter-governmental commodity agreements to assure firm demand and equitable prices for particular primary commodities.

5. Reconsideration of policies which may artificially encourage competition with staple exports of the region.

One other possible field of action, of special value in alleviating the region's dollar shortage, is suggested by the "offshore" purchases already being made to some extent in the region, of commodities needed in ECA programmes. Such purchases in the region might be found capable of extension, as might also purchases by the United States to meet the import needs of Japan. This might prove a valuable field for co-operative study by the United States and countries of the region.

IMPORTS, EXPORTS, AND BALANCE OF TRADE

Table 60 shows the value of exports, imports and balance of trade of countries of the ECAFE region¹ in 1937, 1947 and 1948. It reveals that there was considerable improvement in the balance of trade for the region as a whole in 1948 as compared with 1947. The deterioration compared with prewar, however, still continues.

Total imports of countries of the region in 1948 increased in value by about 20 per cent over the previous year. China was the only country whose imports declined in 1948. Total exports of countries of the region in 1948 increased in value by about 34 per cent. China, again, being the only country to show a decline. Ceylon, Pakistan and Siam were the only countries in the region to achieve a positive balance of trade in 1948. China had a smaller negative balance than in 1947, but it was effected at the cost of a large reduction in imports. India's negative balance in 1948 was somewhat exaggerated by the fact of partition, since Pakistan is a surplus exporting country. Indochina had a slightly higher negative balance than in 1947, imports and exports having risen equally. Indonesia brought about a reduction in its negative balance of trade by a large increase in exports and a smaller increase in imports. The negative balance of the Philippines was narrowed during the year due to a greater increase in exports than in imports. The Malayan Federation and Singapore continued to have a small adverse balance.

All countries of the region adopted special measures to promote exports. Import restrictions continued to be maintained, Siam and the Philippines introducing import control for the first time. Countries of the Sterling Area in general tightened their control of imports from dollar sources. Pakistan and India relaxed control of imports from soft-

¹ The term "ECAFE region" as in the year under review (1948) embraces the following countries: British North Borneo, Brunei and Sarawak, Burma, Ceylon, China, Hong Kong, India, Indochinese Federation, Indonesia, Federation of Malaya and Singapore, Nepal, Pakistan, the Philippine Republic and Siam.

currency sources, and in the case of Pakistan there was some relaxation in relation to dollar sources. Ceylon, on the other hand, for the first time extended import control to soft-currency sources.

The role of trade and payment arrangements in stimulating the trade of the region is examined later in this chapter. External assistance and other special sources of foreign exchange played an important part in maintaining trade in 1948. The ECA aid to China and to Indonesia may be mentioned; also ECA offshore purchases in the ECAFE region which aggregated US\$75 million between April, 1948 and January, 1949.

The following notes on individual countries of the region including reference to their import and export control measures, are intended to bring out the salient features of their foreign trade during 1948.

Burma: Exports of rice continued to figure foremost in the foreign trade of Burma. During 1948, rice exports increased by 421,000 tons to a total of 1,226,000 tons. In the second half of the year, however, rice production and export were adversely affected by civil disturbances. Export of mineral oils was practically nil because of difficulties in the rehabilitation of the mines. Production and export of other minerals such as lead, silver, zinc and copper were also insignificant compared with prewar. Timber exports were roughly one-half of prewar quantities, the principal obstacles being shortages of elephants to haul the timber and of sawmill capacity. Rice exports accounted for nearly 80 per cent in value of Burma's exports, and timber about 13 per cent.

As regards imports, textiles accounted for nearly 15 percent of the total, vehicles about 6 per cent, iron and steel and machinery 10 per cent, and mineral oils 4.5 per cent.

Import control in Burma is on lines more or less similar to that in other Sterling Area countries. Late in 1947, import licensing was extended to imports from the Sterling Area. An interesting change in import licensing during 1948 was the introduction of the communal principle, by which the Burmese, British, Indian and Chinese Chambers of Commerce were given blanket import quotas together with the responsibility of recommending the issue of import licences to members of their respective communities. Licences were issued by the Burmese Government in accordance with these recommendations although not exclusively to members of these commercial bodies.

External financial aid from the United Kingdom remained an important factor in Burmese foreign trade; in 1947/48 the Government of Burma borrowed on short term £10 million from the United Kingdom for the purpose of financing rice purchases by the State Agricultural Marketing Board which is the sole purchaser of Burmese rice for export.

TABLE 60
Total Value of Foreign Trade of ECAFE Countries
 (in million US\$)

Country	1937			1947			1948		
	Export	Import	Balance	Export	Import	Balance	Export	Import	Balance
Burma	189 ^a	89 ^a	+100	123	128	-5	177	241	-64
Ceylon	125	89	+ 36	269	294	-25	306	302	+ 4
China	252	284	- 32	231	441	-210	173 ^b	226 ^b	-53
Hong Kong	251	276	- 25	317	391	- 74	398	524	-126
India	706	661	+ 45	1,222 ^c	1,307 ^c	- 85	1,298	1,421	-123
Indochina	75	44	+ 31	66	137	- 71	92	186	- 94
Indonesia	545	274	+271	127	279	-152	385	428	- 43
Malayan Federation and Singapore	514	391	+123	611	646	- 35	815	844	- 29
Pakistan	...	...	...	...	...	...	273 ^a	234 ^a	+ 39
Philippines	153	110	+ 43	263	509	-246	320	524	-204
Siam	72	48	+ 24	94	140	- 46	202	172	+ 30
	<hr/> <u>2,882</u>	<hr/> <u>2,266</u>	<hr/> <u>+616</u>	<hr/> <u>3,323</u>	<hr/> <u>4,272</u>	<hr/> <u>-949</u>	<hr/> <u>4,439</u>	<hr/> <u>5,102</u>	<hr/> <u>-663</u>

Note: Unless otherwise stated the source is *U.N. Bulletin of Statistics*, May, 1949.

Country	Scope	Method of compilation	Year ending Mar. 1939.	National currency	Approximate rate of conversion per US\$			
					1937	1947	1948	
Burma	Includes gold and silver bullion and specie and excludes trade on government account and re-exports.	* Year ending Mar. 1939.	Rs.	2.7	3.3	3.3		
Ceylon	Includes re-exports but excludes silver bullion and specie.	Rs.	Rs.	2.7	3.3	3.3		
China	Net imports and exports of merchandise, i.e. imports less re-exports and exports less re-imports. Source: <i>Chinese Maritime Customs Returns</i> , Dec. 1948.	* Projected from estimates for Jan.-Nov. 1948.	CN\$	3.3	Varying Monthly Average Rates			
Hong Kong	General trade. Includes silver bullion and specie but excludes government trade.		HK\$	3.3	3.97	3.97		
India	Seaborne trade only. Includes Government trade and re-exports but excludes silver bullion and specie.	* Beginning Aug. 1947 ex- cludes Pakistan. India-Pakistan trade excluded during Aug. 1947 - Feb. 1948.	Rs.	2.7	3.3	3.3		
Indochina	Special trade. Excludes silver bullion and specie.		Piastres	3.5	7.0	12.7		
Indonesian Federation & Singapore	Special trade.		Guilders Malayan \$	1.8	2.7	2.7		
Pakistan	General trade. Source: <i>Monthly Economic Bulletin</i> , by Commissioner-General for the United Kingdom in Southeast Asia, Feb. 1949.			1.75	2.12	2.12		
Philippines	General trade. Excludes purchase of U. S. Army surplus property.	* Estimated from Jan.-Oct. 1948 data.	Rs.	3.3	3.3	3.3		
Siam	General trade in merchandise only. Source: Bank of Siam, <i>Current Statistics</i> , February, 1949.	Peso Baht	2.0	2.0	2.0			

Ceylon: All the principal exports—tea, coconut products and rubber increased in 1948 both in quantity and value with the result that Ceylon secured a positive trade balance. The volume of both rubber and tea exports also exceeded prewar levels, but not of coconut products, which were only two-thirds of prewar due to a decline in production. In value, tea accounted for nearly two-thirds of all exports, approximately the same proportion as before the war; coconut products increased their share from 10.4 to 13.5 per cent, and rubber lost ground slightly from 17 per cent prewar to 15 per cent in 1948 due to a relative decline in prices.

In regard to imports, the most important change was the increased proportion of food. Imports of rice and wheat alone rose from 23.5 per cent of total value before the war to 30.3 per cent in 1947 and 36 per cent in 1948. Total food imports accounted for almost 50 per cent in 1947 and 52 per cent in 1948. In quantity, food imports in 1947 were about the same as in 1938, and in 1948 about 16 per cent higher. Among other imports, textiles accounted for nearly 13 per cent in value in 1947 and 1948 as against 9 per cent prewar. Machinery imports remained unchanged at 2 per cent.

Ceylon's exports are for the most part regulated by bulk sale arrangements. As regards imports, important developments in 1948 were the extension of control to imports from the Sterling Area and the tightening of controls on imports from hard-currency sources.

China: The intensification of civil war and galloping inflation in China during 1948 had a crippling effect on foreign trade. As noted already, China alone in the region experienced a decline in exports and imports (in US\$ equivalent), although the negative balance of trade was smaller due to the more drastic reduction in imports. As regards export, textile fibres (silk, cotton, wool, etc.) which in value accounted for 16 per cent of total imports in 1936, declined to roughly 4 per cent in 1947 and 1948; simultaneously, the export of yarn and piece goods (cotton, silk, etc.) increased from 10 per cent in 1936 to 28 per cent in 1948, indicating a concentration on the export of textile manufactures. Animals and animal products and oils, which before the war accounted for 28 per cent of exports, currently constitute about 35 per cent of total exports. Items which indicate proportional decline as compared with prewar, are seeds (from 6 to 2 per cent), metals and ores (from 8 to 5.5 per cent), tea (from 4.4 to 2.5 per cent), and cereals (from 3.5 to 1.3 per cent). Thanks to the restitution of Taiwan, sugar accounted for 3.6 per cent of total exports in 1948 as against 0.6 per cent prewar.

While no major long-term changes in the pattern of imports are discernible, increases in the import of cotton, machinery and tools, soaps

and oils are indicated. Import control is designed to economize foreign exchange, and to make it available for the import of essential raw materials and equipment needed for increasing production and export.

ECA assistance to China of US\$275 million economic aid and US\$125 million other aid, which made possible the import of food and grains (\$70 million), cotton (\$70 million), petroleum products (\$50 million), fertilizers (\$14 million) and other products, played an important part in sustaining production and trade.

India: As compared with prewar, several significant features are noticeable in the pattern of India's imports.¹ In relation to the value of total imports, imports of grains, pulse and flour increased from 7 per cent prewar to 13.2 per cent in 1948 (ten months). Imports of machinery declined from 12 per cent to 11.1 per cent in 1947 and increased to 17.4 per cent in 1948. Imports of raw cotton rose from 7.2 per cent prewar to 8.4 per cent in 1947 and 10.2 per cent in 1948; vehicles from 4.4 to 6.2 and 6.5; and chemicals, drugs and medicines from 3.7 to 4.6 and 5.7. Imports of other items indicated gradual postwar recovery, with improved supplies; iron and steel 4.2, 1.7 and 2.7 per cent, prewar, 1947 and 1948 respectively; metals other than iron and steel 2.7, 4.6 and 4.0 per cent; and cutlery and hardware 3.8, 5.0 and 3.3 per cent over the same period. Significant decreases are in imports of cotton manufactures and yarns — 9.5 per cent prewar compared to 1.7 per cent in 1947 and 3.0 per cent in 1948; vegetable and mineral oils, 10.6 per cent prewar compared to 5.5 in 1947 and 7.3 in 1948; also in imports of a large number of luxury articles.

On the side of exports, jute yarns and manufactures rose from 16.2 per cent of total prewar exports (by value) to 27.4 per cent in 1947 and 35.9 per cent in 1948, and cotton yarns and manufactures from 4.7 per cent to 7.5 per cent and 8.9 per cent over the same period. These also increased in quantity. The share of tea exports slightly declined from 14.5 per cent prewar to 11.6 per cent and 12.3 per cent respectively in 1947 and 1948, but in quantity remained fairly stable. Other export commodities declined both quantitatively and proportionately as compared with prewar, notably raw cotton from 14.7 per cent prewar, to 11.1 in 1947 and 5.6 in 1948; seeds and nuts for oil from 9.9 to 1.1 and 2.6 per cent over the same period.

These changes in the pattern of imports and exports reflect changes in India's economy, including changes brought about by partition. The decline in the export of raw cotton, coupled with an increase in its import,

¹ As prewar figures refer to India and Pakistan, they are, strictly speaking, not comparable with postwar figures for 1947 and 1948. See footnote c to Table 60.

is accounted for by increased home consumption in face of a reduction in supply brought about by partition. The decrease in exports of hides and skins, seeds, etc., indicates increased home demand and a reduced capacity to export. At the same time, the increased proportion of imports of machinery, metals, chemicals and other raw materials of industry and increased exports of cotton manufactures indicate the effects of industrialisation on the pattern of India's foreign trade.

India's trade policy during the year continued to be influenced by the balance of payment problems caused by large-scale food imports. The measures adopted during the war may be grouped under the following heads: Export promotion; import control; trade control in relation to hard-currency countries; other measures to promote trade.

With a view to maximizing foreign exchange earnings, export control was liberalized either by decontrolling certain articles or enlarging the exportable quotas of others, notably oil seed and cotton textiles.

The Government's import control is largely determined by the balance of payments position. The aim of this policy is so to regulate trade that while it is maintained at the highest possible level consistent with the needs of the country, the over-all deficit in balance of payments on current account during any particular period should not exceed the amount of sterling balances released by agreement with the United Kingdom. From July, 1947 to July, 1948 a rigorously restrictive import control was enforced with a view to economizing foreign exchange. However, in view of the harmful effects of such control and the failure to utilize in full the agreed releases of sterling balances, import control was relaxed in July 1948 and again in November 1948. Many commodities needed by home industries were freed from control. Also, so far as soft currency areas were concerned, several luxury articles were released from control.

With a view to reducing the deficit with hard-currency areas caused by increased imports, particularly of foodgrains, the policy was adopted of the greatest possible limitation of imports from those areas and the greatest possible encouragement of exports to them. To this end, enlarged quotas of export articles were allotted for those countries. These measures yielded fairly encouraging results in the first half of the year, but, later, exports to hard-currency areas tended to decline.

Other measures to promote trade included the negotiation of trade agreements (discussed in a later section of this chapter), trade delegations, expansion of the trade commissioner service, participation in exhibitions and international fairs, reconstitution of the Import and Export Advisory Councils to help the government in policy matters, etc. During the year, trade delegations from Japan, Czechoslovakia, and Afghanistan

visited India. Trade missions were sent to Japan and Germany. Arrangements were also being made for the exhibition of Indian handicraft products in overseas markets. A purchasing mission visited the United Kingdom, the United States, Canada and certain European countries and placed orders for a large volume of railway equipment.

Indochina: The foreign trade, especially exports, of Indochina continued to be adversely affected by civil disturbance and consequent low production, although considerable progress was achieved. Total exports in 1947 were only 24 per cent of the prewar volume, and, in 1948, 39 per cent. Quantities of maize and rice exported in 1948 (24,000 and 247,000 tons respectively) increased substantially over the previous year (5,000 and 90,000 tons respectively), but were still only about one-tenth of prewar. Exports of mining products and rubber were negligible owing to low output.

In volume, Indochina's imports in 1948 were 117 per cent of the 1938 level, whereas in 1947 they had been only 76 per cent. Imports which in value showed more than proportional increase compared with prewar were automobiles, wines and spirits, and paper.

Foreign exchange allocations for imports into Indochina from dollar and sterling sources continued to be laid down by the French Government. Allocations made in the first half of 1948 were 893,550 and 23,000 in U.S. dollar value, for dollar and sterling sources respectively, as against the original estimate of 40.6 million and 11.8 million in U.S. dollar value, for the whole year, submitted by the Central Supply Committee in Indochina. During the year, the necessity of obtaining import and export permits for trade with France and African territories of the French Union was dispensed with, although temporarily certain commodity exports (rice, grains, seeds and oils, bullion, etc.) remained subject to licence. With a view to ensuring the export of rice, rice products and maize from Indochina in accordance with international and other commitments, an Indochinese Rice and Maize Committee was set up with authority to control and direct such exports.

Indonesia: Despite continued political disturbances, there was a very considerable increase in the production and export of agricultural and mineral products from Indonesia during 1948. The improvement is measured by the following export figures (in thousand gross tons) :

	Rubber	Tin and tin ore	Sugar	Tea	Copra	Palm oil	Petroleum products	Bauxite
1938	321.6	26.5	1,091.8	81.8	565.4	220.8	6,067.3	273.8
1947	84.9	21.6	1.7	3.2	152.6	2.2	770.9	89.5
1948	280.0	45.4	70.8	9.3	241.4	39.6	3,846.0	450.2

Source: Statistical Office, Batavia.

Tin exports were still below the peak attained in 1941, and exports of copra, palm oil, petroleum products and rubber were below prewar levels. Bauxite exports were almost double prewar.

Of Indonesia's imports (by value), textiles continued to account for approximately 30 per cent, food and tobacco 25 per cent, and metals and machinery, including vehicles, about 25 per cent. All principal imports tended to increase in 1948.

Of great importance to the speedy restoration of production was the ECA aid, estimated at US\$84 million, which facilitated the import of production equipment and materials. Further factors in the recovery of trade were improvements in transport and credits from the Netherlands.

In the field of import and export control there was a tendency for trade to be increasingly restored to normal commercial channels. On the export side, special governmental agencies continued to control trade in copra, quinine, mineral ores and produce of undetermined ownership.

Malayan Federation and Singapore: Record production and export of rubber and improvement in production and export of tin and other minerals such as gypsum and kaolin, but not of iron ore, were the main features of the export trade of the Malayan Federation and Singapore in 1948. Rubber and gutta percha accounted for 61 per cent in 1947 and 51.3 per cent in 1948 (11 months), while tin and other non-ferrous metals which accounted for 21.2 per cent prewar, declined to 8.7 per cent in 1947, improving, however, in 1948 to 13 per cent. Exports of seeds and nuts increased from 2.8 per cent prewar to 4.8 per cent in 1947 and 7.3 per cent in 1948.

As regards imports, significant features are a decrease in the percentage of rubber and gutta-percha from 21.2 prewar to 13.5 and 10.0 respectively in 1947 and 1948, and increases in the percentage of cotton and yarn and manufactures from 3.8 to 13.4 and 12.2 per cent, of grain and flour from 9.3 to 10.6 and 16.2 per cent, and of other food, drink and tobacco from 12.8 to 23.8 and 20.3 per cent respectively over the same period.

A considerable degree of restriction of imports from hard-currency sources and of hard-currency origin into the Federation and Singapore was a notable development, which is likely to have its full effect on imports only in 1949. There are no restrictions on imports from sterling area and soft-currency sources; an important fact in view of Singapore's entrepôt trade. The non-issuance of import licences for textiles from hard-currency sources with effect from mid-1948, pending the fixing of textile quotas for Malaya under the SCAP-Sterling Area Trade arrangement, was significant inasmuch as Malayan textile imports from the

United States, totalling M.\$56 million in 1947 and M.\$104 million in 1948 as against only M.\$2 million in 1946, were largely responsible for the increased share of the United States in Malaya's imports in 1947 and 1948. There was a continued ban on the import of trucks from hard-currency sources, and of automobiles of over 20 hp. except from the United Kingdom.

Pakistan: During 1948 Pakistan's foreign trade increased. Many difficulties were overcome such as the disorganization of banking and commercial houses, dislocation of transport, and immigration of refugees, which had hampered trade immediately after partition. Improvements in transport, the establishment of new import and export agencies, and the experience gained from the independent working of trade controls after partition, were important factors in promoting trade. After review of its trade control policy, the Government considerably liberalized its import control during the year. Practically all imports from soft-currency areas were freed from restrictions, and imports of machinery and capital goods from all currency areas were freely licenced. Between 15 August, 1947 and 31 March, 1948, Pakistan's sea-borne exports totalled Rs.347 million. Between 1 April, 1948 and 31 December, 1948 exports amounted to Rs.453 million and imports to Rs.372 million, giving a positive balance of Rs.81 million. Since these totals are for sea-borne trade, they largely exclude trade with India. Pakistan has a considerable positive trade balance with India; therefore its over-all favourable balance is larger than the figures suggest. Its principal exports, raw jute, hides and skins and cotton, are moving out smoothly; its exports of foodgrains, largely to India, declined, however, in 1948 due to a bad season.

Other measures taken by Pakistan to promote trade include negotiations for trade agreements with Hungary, Egypt, Japan, Belgium, Ceylon and India and a trade mission to Japan.

Philippines: Exports from the Philippines during 1948 showed a considerable degree of recovery, rising from 531 million pesos in 1947 to 640 million pesos in the first 10 months of 1948. Exports of coconut oil and copra meal in the first half of 1948 alone far exceeded those in the whole of 1947, while the export of dessicated coconuts also increased. Abaca exports were well maintained. Sugar exports recovered substantially from 19 million kilogrammes in 1947 to 120 million kilogrammes in the first half of 1948. The exportable quota of lumber and timber was raised from 25 to 50 per cent of producer's output with effect from July, 1948. Inspection and certification of exports was enforced by the Bureau of Forestry. High freight charges and other difficulties, however, hampered timber exports. Mining production and export continued to be impeded by the high cost of capital investment, excessive labour

charges and the unremunerative price of gold. Exports of chromite amounted to 4.5 million pesos and of embroidery 10 million pesos.

Imports during the first 10 months of 1948 amounted to 890 million pesos. Indications after June pointed to a declining trend. Textiles, rayon and synthetic textiles accounted for nearly 25 per cent of imports, while grains, automobiles, iron and steel and machinery were other important imports. No striking changes are noticeable in the composition of the import trade, except for an increase in mineral oil imports.

In the field of trade policy, the most important development during the year was the passage of the Import Control Act. Passed by the Congress in June, and signed by the President in August, the Executive Order, providing rules and regulations to carry import control into effect, received presidential approval late in December. The Act is designed to conserve foreign exchange and protect local industries. An Import Control Board was constituted. No non-essential or luxury article (specified in a list) could be imported without a licence, and the quantity or value of import of each non-essential or luxury article was to be determined and enforced on a quota basis. Twenty per cent of import quotas were reserved for new importers.

Other measures to promote trade taken during the year included a trade conference (mainly of Philippine and American businessmen), and a trade agreement with the SCAP for the delivery of 200,000 tons of iron-ore to Japan on condition that the SCAP would make available 8,500 tons of steel.

Siam: An appreciable improvement in rice export and the securing of a positive trade balance were the main developments in Siam's foreign trade during 1948.

In November, a Siamese trade mission left for the United Kingdom, the continent of Europe and the United States, with a view to negotiating the purchase of a considerable quantity of railway equipment, steel and other industrial equipment. An earlier trade mission negotiated a trade plan with SCAP, as result of which several manufactured articles, including railway rolling-stock, were to be bought from Japan in exchange for Siamese rice, tin, rubber and other products. The rehabilitation of the railways, if speeded up, would result in an appreciable increase in rice exports, since owing to lack of transport about 400,000 tons of rice in North Siam could not be moved.

An important development in trade policy was the imposition of import control in December. Goods for which licences are required include passenger automobiles and motor cycles, cement, cosmetics, luxury food articles, toys, and other non-essential items. The object of import

control is to divert the expenditure of foreign exchange to the purchase of productive equipment. The control, however, affects only about 10 per cent of total imports.

TRADE IN PRINCIPAL COMMODITIES

The main trends of trade in the principal commodities of the region, both in their inter-regional and intra-regional aspects, are analysed in this section. These commodities are (1) basic foods—rice, cereals, fats and oils, sugar and tea; (2) fibres—cotton, silk and jute; (3) other commodities—rubber, tin and petroleum. In some of these commodities, there is intra-regional trade in varying degrees, e.g., rice, sugar, petroleum, cotton. In others, the important feature is the net export of the region to extra-regional markets, e.g., jute, tea, tin, rubber. In some cases, both intra-regional and inter-regional trade are important—fats and oils, sugar. In regard to rice, the intra-regional pattern is particularly significant since it accounts for a high proportion of total trade between countries of the ECAFE region.

Rice

Net world exports of rice before the war average approximately 8.5 million tons, representing about 9 per cent of world production, the bulk of rice being consumed in the areas where it was produced. Of the total net exports, about 77.5 per cent came from the surplus producing countries in the ECAFE region, while 13.5 per cent came from Korea. The importing countries were also mainly in Asia; thus international trade in rice was largely concentrated within Asia. War in the Pacific caused a complete dislocation in this trade. Exports from the surplus producing countries were sharply reduced, and the ECAFE region, instead of having net exports of more than 2 million tons as it did before the war, became a net importer of rice. This is one of the main factors in the region's balance of payments and dollar problems, which are described in the next chapter.

It will be seen from table 61 that in 1948 world trade in rice showed a considerable improvement over the previous year, although total exports amounting to 3.4 million tons were still 60 per cent below the prewar average. The share of the ECAFE region in total exports rose from 61 per cent in 1947 to 68 per cent in 1948.

Exports of rice from Burma, which showed good promise of reviving, have slowed down since the middle of 1948 owing to civil disturbances and lack of transport facilities. Exports from Indochina in 1948, while nearly four times the 1947 total, still represent only 12 per cent of prewar. Exports from Siam in 1948 amounted to 58 per cent of prewar, and show promise of complete revival and even expansion in the next two

TABLE 61

<i>Rice Exports</i> (thousand tons)			
	1934-38 average	1947	1948
Burma	3,070	805	1,226
Indochina	1,290	42	159
Pakistan ^b	260	331	145
Siam	1,388	384	806
Taiwan (Formosa) ...	612	—	—
TOTAL, ECAFE region:	6,620	1,562	2,336
Korea	1,158	—	—
Other exporting countries	782	1,008	1,074
TOTAL, World:	8,560	2,570	3,410

Source: FAO, *Rice Bulletin*, February, 1949.

^a No information is available on the exports of rice from Taiwan, now a province of China, to the Chinese mainland.

^b Exports from the surplus areas of Pakistan to the deficit areas of India.

TABLE 62

<i>Rice Imports</i> (thousand tons)			
	1934-38 average	1947	1948
India ^a	1,961 ^b	790	944
China	797	263	384
Hong Kong	175	86	113
Malaya	548	271	466
British Borneo ^c	1	31	32
Ceylon	530	276	401
Indonesia	282	117	169
Philippines ^c	35	33	44
TOTAL, ECAFE region:	4,329	1,867	2,553
Japan	1,757	—	35
Other importing countries...	2,287	692	745
TOTAL, World	8,373	2,559	3,333

Source: FAO, *Rice Bulletin*, Commodity Series No. 11, February, 1949, p. 21.

^a Including estimated rail and river-borne trade between surplus areas of Pakistan and deficit areas of India.

^b Includes inter-provincial trade between Burma and other provinces of British India up to 1 April, 1947; thereafter imports from Burma into India.

^c Figures on the Philippines and British Borneo for 1947 and 1948 are taken from *Food Statistics Relating to South-east Asia*, No. 21, February, 1949. They are not available for prewar years.

to three years. Taiwan, which before the war exported rice to Japan, is now exporting considerable quantities to China. Korea, which before the war was a large exporter, is not in a position to export at present. In 1948 South Korea was a net importer of rice. An outstanding development in the world's trade in rice is the increased role assumed by countries outside the region, notably Egypt, the United States, Brazil and other Latin-American countries as exporters. In 1947 they accounted for about 39 per cent of world rice exports, and in 1948 about 32 per cent, compared with a prewar share (not including Korea) of about 9 per cent.

Table 62 shows that, among importing countries, India continues to be the largest, both in the region and in the world, accounting for 28.3 per cent of net global imports in 1948. Even so, its total imports were only 48 per cent of prewar. Ceylon and Malaya have continued to be net importers of rice, and in 1948 took a slightly larger share of world imports than in 1947. Indonesia also imports more rice than in 1947, on account of its present low level of production.

Other Cereals

In regard to other cereals, including bread grains (wheat flour, rye) and coarse grains (maize, barley and oats), there has also been a fundamental change in the position of the ECAFE region compared with prewar. In 1934-38 the region as a whole was a net importer annually of almost a million tons of bread grains and a net exporter of about three quarters of a million tons of coarse grains. All the countries of the

TABLE 63
Net Import or Export of Bread Grains and Coarse Grains
(thousand tons)

(A minus sign (—) designates net exports)

Country	Wheat, flour, rye			Maize, barley, oats		
	1934-38	1946/47	1947/48	1934-38	1946/47	1947/48
China	760	394	113	—123	1	1
Indochina	26	15	19	—492	—	—
India	—226	1,028	1,302	— 14	645	610
Pakistan	—	—	8	—	—	—
Indonesia	105	86	80	—123	—	—
Philippines	107	278	115	—	2	—
British North Borneo	4	2	211	—	—	8
Malaya	77	309		—	1	—
Burma	43	15	28	— 14	—7	—
Ceylon	25	392	293	1	—	1
Hong Kong	24	87	34	1	1	2
TOTAL	945	2,606	2,203	—764	643	622

Source: FAO, *Grain Bulletin*, Commodity Series No. 10, January, 1949.

region except India imported bread grains before the war, while India and Pakistan, China, Indochina, Indonesia and Burma exported coarse grains. Thus on balance, the region as a whole was more or less self-sufficient.

In contrast, the ECAFE region is now a large net importer of both bread grains and coarse grains to the extent of 3.2 million tons in 1946/1947 and 2.8 million tons in 1947/1948. Changes by country are shown in table 63.

Fats and oils

The position of the region in international trade in fats and oils has undergone significant changes since before the war. During the period 1934-38, countries of the AFE region (i.e., the ECAFE region with the addition of Japan and Korea) had a net export of fats and oils and oil cake of the order of 2.25 million tons out of a world export total of 5.9 million tons. Total exports from the region in 1948 are estimated at 1.3 million tons, or less than three-fifths of the prewar total, this reduction being due to a decline in production and export capacity. During and since the war, many plantations were neglected and much of the installation machinery and transport facilities were badly damaged. Most of Japan's whaling fleet was destroyed and the fish oil industry was reduced to almost zero. In Manchuria and other oilseed export areas of China, political and economic unsettlement prevents anything more than very small export shipments of soybeans and other oilseeds. In India the pressure of population, inadequate supplies of cereals and low oilseed crops (and reduced cotton acreage) compelled the Government to curtail sharply the export of oilseeds, oil and oilcake. Although India's oilseed production is believed to have now regained the prewar levels, there is no early prospect of any important increase in exports of oilseeds over the low level of 1948. (See table 64.)

Production for export is gradually recovering in Indonesia, as well as in Malaya, though there are still some difficult adjustment problems—labour supply, wage disparities, etc.—quite apart from major political and social problems. In Ceylon, production was largely maintained during the war but was subsequently affected by drought and by the fact that some of the coconut palms are going out of bearing.

The Philippines copra industry made a sensational recovery after its virtual extinction during the war, and production in 1947 rose to over a million tons (640,000 tons, oil equivalent) compared with the prewar peak of about 700,000 tons. Production in 1948 fell somewhat below this high level, partly due to the effects of the typhoon in November/December 1947.

Simultaneously with the decline in export from the AFE region there has been an increase in the production of fats and oils in North America, from 3.4 million tons in 1934-38 to 4.9 million tons in 1948. In Europe, production in 1948 was estimated at 2.9 million tons as against 4 million tons before the war. In face of rapidly recovering production in Europe and more or less permanently increased output in North America, it is questionable to what extent the AFE region, even when its production recovers, will be able to recapture its prewar export markets. Moreover increased regional consumption is likely to absorb a proportion of production as it recovers.

TABLE 64
Trade in Fats and Oils
 (Oil-equivalent)
 (thousand tons)

Year	Imports	Exports	Net trade	
			Import	Export
1934-38 average	350	2,600	—	—2,250
1946	100	650	—	550
1947	150	1,120	—	970
1948	170	1,250	—	—1,300

Source: FAO, *The State of Food and Agriculture*, 1948.

Sugar

As a result of the war and its aftermath, important changes have taken place in the international trade position in sugar of the ECAFE region. (See table 65.) The region as a whole, which was a net exporter of sugar to the extent of more than 2 million tons in 1934-38, became a small net importer in 1947 and only barely regained a net export position in 1948.

For two or three years after the war, Indonesia, the Philippines, and Taiwan, the three major prewar exporters of sugar in the region, almost disappeared from the international market. The Philippines, which before the war exported more than 860,000 tons of sugar, had actually to import sugar in 1946, although it resumed sugar exports in 1948. Indonesia and Taiwan, which exported nearly two million tons prewar, had practically no exports in 1947 and very insignificant quantities in 1948. Sugar importing countries of the region have found new sources of supply in Australia and Mauritius.

TABLE 65

Net Import or Export of Sugar
 (Postwar Figures in Raw Value)
 (thousand tons)

Net export: — Net import: +

Country	1934-38	1947	1948
British North Borneo ^b ...	+ 118.5	—	+ 120
Burma	+ 11.5	—	+ 40
Ceylon	+ 73.5	—	+ 120
China			
22 provinces	+ 186.1	+ 3.9	+ —
Taiwan	— 833.2	—	— 150
Hong Kong	+ 48.4	—	+ 22
India	+ 62.2	—	+ 20
Indochina	— 0.3	+ 9.7	—
Indonesia	— 1,045.0	— 1.7	— 75
Pakistan	—	—	+ 50
Philippines	— 861.6	—	— 256 ^a
Siam	+ 39.4	—	+ 10
Total net imports	+ 539.6	+ 13.6	+ 382
Total net exports	— 2,740.1	— 1.7	— 481
Difference	— 2,200.5	+ 11.9	— 99

Source: Figures for 1947 and 1948, from FAO, *Sugar Bulletin*, No. 1, July, 1948, and prewar figures from FAO, *Food and Agricultural Conditions in Asia and the Far East*, 1948 (E/CN.11/144).

^a Actual export, 1 January, 1948 to 30 September, 1948, plus estimate for last quarter, United States Department of Agriculture.

^b Including Brunei, Sarawak.

Tea

In the world's exports of tea, the AFE region holds a very important place, accounting for about 98 per cent in 1937 and only a slightly smaller percentage in 1947 and 1948. The decline in the quantity of tea exports is the result of virtual cessation of exports from Indonesia and China (see table 66). Recovery in production and exports of tea from Indonesia has been rather slow; although there was some improvement in 1948, tea exports were still only 14 per cent of prewar. Changes in consumer taste, lack of warehouse facilities in Batavia, the damage caused to the reputation of Indonesian tea by the export of spoilt stocks immediately upon liberation, and difficulties in restoring production, make it problematical to what extent Indonesian tea will regain its prewar level of exports. Reduced export from China in 1948 was due to the spread of civil war. (See table 66.)

TABLE 66

Country	Export of Tea (thousand tons)		
	1937	1947	1948
India ^a	151.4	174.6	161.9
Ceylon	96.7	130.3	136.2
Indonesia	66.7	3.2 ^c	9.3 ^c
China	51.1	14.7	17.5
Japan	24.5	3.0	4.0
Indochina	2.0	0.1	1.4
TOTAL OF AFE REGION^b	395.3	326.0	330.6

Source: India— Govt. of India, *Monthly Abstract of Statistics*, March, 1949; *The Overseas Trade of Ceylon*, 1948, Department of Information, Colombo, Ceylon; Information supplied by the Economic Planning Division of Batavia, dated 25 January, 1949; *Trade of China*, December, 1948; International Tea Committee, *Monthly Statistical Summary*, April, 1949; *Bulletin économique de L'Indochine*, March, 1949, Saigon.

^a Including Pakistan.

^b Including other Far Eastern countries (Burma and Malaya).

^c Gross tons.

Fibres

The AFE region as a whole is on balance a large exporter of jute fibre, hard fibres and raw silk, and is a major importer of cotton. The after-effects of the war are still hindering recovery in production and trade of fibres in the region.

Despite the considerable improvement over the previous season the total output of fibres in the region in 1948 was only 70 per cent of the 1934-38 average, as compared with the recovery in world output (excluding the Union of Soviet Socialist Republics) to 88 per cent of the prewar average. Consequently in 1948 the region accounted for only 33 per cent of the world fibre output as compared with 43 per cent for 1934-38.¹ This was mainly due to the comparatively low postwar level of cotton and jute exports from the subcontinent of India, and of hard fibre exports from the Philippines and Indonesia.

The important changes in trade in the principal fibres are summarized below:

Raw Cotton. The export capacity of India and Pakistan in raw cotton has declined owing to increased home consumption. With this development, the dependence of Japan on extraregional sources of

¹ The causes of the decline in production will be found in chapter IV on Food and Agriculture.

supply, notably the United States, for raw cotton has increased. China, which before the war was more or less self-sufficient in regard to its requirements of raw cotton, is now dependent on imports for part of its needs.

Silk. The progressive displacement of Chinese and Japanese silk in the United States market by rayon and nylon, had a very serious effect on the international trade in silk before the war. This has been considerably aggravated since the war. There has been a steep decline in raw silk production both in China and Japan, and the United States demand for silk shows no sign of rising. A Japanese export programme in 1946 aimed at a raw silk export of 8,400 tons in 1946, rising to 11,300 tons by 1950. In 1946, only 5,000 tons were exported to the United States, of which the bulk was unsold at the end of the year. Japan's raw silk exports improved in 1948. Nevertheless, the precipitous decline in world demand for silk from prewar heights seems to be permanent. Both China's and Japan's raw silk exports in 1948 were only about one-eighth of the quantity exported in 1935.

Jute

The region's production of raw jute is concentrated in Pakistan, and of jute manufactures, in India. Both production and trade of raw and manufactured jute is still affected by the following wartime factors:

(a) The wartime restriction of the area under jute to less than half of that in 1939/40, mainly with a view to releasing it for food crops. In 1947/48 the area was still only half that in 1939/40.

(b) The consequent decline in exports of jute, both raw and manufactured. As compared with 757,000 tons in 1935-39, exports of raw jute in 1940-45 declined to 228,000 tons; export of jute manufactures declined over the same period from 467,000 tons to 369,000 tons.

(c) The fact that international trade was largely determined during the war by the availability of shipping space and allocations by the Combined Raw Materials Board.

Since the end of the war, there has been an abnormal increase in the world demand for jute without a corresponding increase in supplies, export of raw jute in 1947 amounting to only 276,000 tons and in 1948 to 252,000 tons. Exports have been subject to destinational quotas based on previous consumption by individual countries. Another major postwar change in the jute trade arises from the partition of India. Pakistan produces three-quarters of the region's raw jute, while India has virtually all the jute manufacturing capacity. Consequently, India is the largest importer of raw jute and continues to be the largest exporter of manu-

factured jute. The two countries have entered into arrangements designed to ensure the smooth flow of raw and manufactured jute into world trade.

Rubber

As was seen in chapter IV, the postwar recovery in natural rubber production in the region has been remarkably rapid. World consumption of rubber has exceeded all anticipations, rising to 1,735,000 tons in 1947 and 1,900,000 tons in 1948, although the consumption of rubber in the United States is expected to decline from 1,122,000 tons in 1947 to 1,085,000 in 1948 and slightly further in 1949. In other countries, including Russia, demand rose from 613,000 tons in 1947 to 800,000 tons in 1948. During 1947 and 1948 the production of natural rubber consistently exceeded consumption, with a consequent increase in stocks. On the other hand, the rate of increase in the consumption of natural rubber was greater than the rate of increase in its production. This was due to the increase in total rubber consumption and some decrease in synthetic rubber consumption. The production of synthetic rubber has been adjusted downwards but it is still above consumption, with a consequent accumulation of synthetic rubber stocks.

TABLE 67
Net Export of Natural Rubber
(thousands long tons)

Country	1937	1947	1948
Borneo, North	13	15	19
Brunei	1.8	2.0	2.2
Burma	7.2	2.6	10.1
Ceylon	70	83	92
India	10	—	—
Indochina	43	51	41
Indonesia	434	285	432
Malaya	491	640	679
Philippines	0.4	1.7	—
Sarawak	26	36	40
Siam	36	53	96*
TOTAL	1,132.4	1,175.3	1,411.3

Source: *Rubber Statistical Bulletin*, Vol. 3, No. 1, October, 1948; *Rubber News Sheet*, January and February, 1949; information supplied by Government.

* Imports into Malaya plus exports from Siam from 1945 onwards.

Table 67 shows that of the major producers of natural rubber, Malaya, Siam and Ceylon have all increased their exports very substantially compared with prewar and also with 1947. Only Indonesia lags slightly behind prewar in spite of remarkable progress in 1948.

Tin

International trade in tin may be considered in two parts: trade in tin concentrates and trade in tin metal. The ECAFE region before the war produced nearly two-thirds of world output of tin ore, and in smelting capacity accounted for 62 per cent of the world's smelter production; Malaya's share of the latter was 46 per cent, and that of China and Indonesia 8 per cent each. The region thus smelted most of its own ore production, but, being only a small consumer of tin metal, exported the bulk of its smelter production; its exports of tin concentrates outside the region were relatively small. On the other hand, because of the heavy concentration of smelter capacity in Malaya, there was a considerable import into Malaya of tin concentrates from the other producing countries of the region. On an average Malaya imported tin concentrates in excess of 25,000 tons per year, representing more than 60 per cent of the combined tin concentrates export of Siam, Indonesia, Burma and Indochina.

Outside the region, Bolivia, the Belgian Congo and Nigeria were the main producers of tin ore; the principal smelters were European countries, accounting for 35 per cent and including the United Kingdom (20.7 per cent) and Netherlands (8 per cent). The principal consumers of tin metal before the war were the United States (40 per cent), Europe, the Union of Soviet Socialist Republics and the rest of America (47 per cent), and Japan (5 per cent).

Owing to the war, the consequent damage, and difficulties in recovery, the share of the ECAFE region in world production and trade declined to negligible levels until 1946, but since then progress has been made in recovery. In 1948 there was marked progress in Malaya and Indonesia. An important development in trade has resulted from the emergence of the United States as a major smelter producer of the world. The United States, which before the war imported tin metal, not concentrates, is at present importing concentrates from Latin America and Asia, and is smelting them to the extent of 75 per cent of its metal consumption. Malaya's imports of tin concentrates have sharply declined from 25,000 tons prewar to only 3,400 tons in 1947 and 3,600 tons in 1948, while its exports of tin metal stood at 32,600 metric tons in 1947 and 48,000 tons in 1948 as compared with the average of 78,000 tons in 1937-39. While the present position in tin is one of shortage, it is anticipated that with rapid recovery, production will exceed demand after 1950.

Petroleum

Before the war, Indonesia, Burma and Brunei were large exporters of petroleum products, while Ceylon, China, India, Indochina, the

TABLE 68
Import of Petroleum Products
 (in million litres)

Country	Prewar*				1947				1948			
	Gasoline, benzine, etc.	Kero- sene	Heavy ^b oils	Lubri- cating oil	Gasoline, benzine, etc.	Kero- sene	Heavy ^b oils	Lubri- cating oil	Gasoline, benzine, etc.	Kero- sene	Heavy ^b oils	Lubri- cating oil
Ceylon	55.9	37.3	455.1	3.2	81.4	42.7	420.6	5.0	106.7	43.9	471.6	6.9
China	172.3	395.3	348.3 ^c	49.7	542.6	379.8	1,341.2 ^c	63.6	338.7	127.3	1,103.2 ^c	45.7
India	391.9	879.3	665.6	160.0	493.8 ^d	808.4 ^d	1,204.4 ^d	245.1 ^d	579.2 ^e	560.1 ^e	516.5 ^e	201.9 ^e

Source: *Ceylon Trade Journal; Accounts Relating to the Sea-borne Trade and Navigation in India; Chinese Customs Trade Returns.*

* Prewar years: Ceylon, 1938; China, 1936; India, 1939/40.

^b Including liquid fuel, fuel oils, etc.

^c Converted from metric tons at average specific gravity of 0.90.

^d Twelve months, April 1947 - March 1948.

^e Projected from 6-month figures from April to September, 1948.

Philippines, and Siam were all importers. In 1941, the production of petroleum in the region was estimated at 72.4 million barrels against consumption of 78.4 million barrels. After the war, production fell drastically on account of war damage and lack of replacement and personnel. The oil wells in Burma were not yet rehabilitated, to any appreciable extent, but considerable progress was made in Brunei and Indonesia. The export of crude oil in Brunei reached 1,690,000 tons in 1947 against 851,400 tons in 1940, and rose sharply in 1948. The export of petroleum products in Indonesia increased from 771,000 tons in 1947 to 3,846,000 tons in 1948, the latter representing about 61 per cent of prewar level.

Owing to coal shortage and the increasing use of motor vehicles and vessels, the consumption of petroleum products in the region after the war rose considerably. This was reflected in increased imports, as shown in table 68.

As can be seen from the figures in table 68, for three countries of the region where comparable statistics are available, the postwar import of kerosene tended to decline, while for the postwar import of all other categories, there was an appreciable increase.

Regional Trends

It will be seen that the position of the ECAFE region has undergone a considerable deterioration in respect of many of the principal commodities in international trade. In rice, the region, which was a net exporter before the war, has now become a net importer; in cereals, it has become a considerably bigger net importer than before the war. In sugar, the region's net export position has fallen to negligible proportions. In fats and oils, the quantity of net exports of the region and their percentage in world exports of fats and oils have recorded a considerable decline. Even in regard to tea, the quantity of exports from the region has declined somewhat, although the predominant position of the region has not been impaired.

The region has also declined considerably in world production and trade in fibres. In cotton, silk, jute and hard fibres, trade is lagging far behind prewar levels. Of other commodities, rubber is the only example of a commodity in which remarkable recovery in production and trade, even exceeding prewar levels in several countries, has been recorded. A fair degree of recovery has been achieved in regard to tin ore production. In petroleum, the region has become a smaller producer and larger importer.

The year 1946 was one of improvement in varying degrees over 1947 in regard to most commodities. The region's rice production and

exports and its share of world exports improved, while imports of cereals in 1948 showed a decline as compared with 1947. Net exports of fats and oils rose by more than 10 per cent. In sugar, the region regained a net export position after being a net importer in 1947.¹ Exports of fibres also increased substantially. Progress was made in tin ore production and export, particularly in Malaya and Indonesia.

In spite of this improvement during 1948, the region still has far to go in restoring prewar levels of export. Export of raw jute, fats and oils and rice are unlikely to recover to prewar levels for some considerable time on account of increased regional consumption and reduced production. The net import of cereals by the region also seems likely to continue in view of the continuing growth of population and the limits to increased regional production. Re-establishment of sugar in prewar export markets has to reckon with competitive sources of supply. In regard to raw cotton, dependence on extraregional sources of supply can be reduced only by increased production in the region, and this is contingent on a prior improvement in food production and on other imponderable factors such as the availability of Chinese raw cotton. As regards rubber, the problem of adjusting supply to demand has already arisen, while with tin it is a contingency only a year or two distant. In silk, the decline is more or less permanent. In petroleum, the increased dependence on extraregional supplies is almost certain to persist for a considerable time.

GEOGRAPHICAL DISTRIBUTION OF TRADE

This section describes the main changes in the geographical distribution of trade for each country of the ECAFE region for which statistics are available, as between (1) prewar and 1947 and (2) 1947 and 1948. In each case, unless otherwise stated, the reference is to the *share* of the total value of a country's exports or imports.

In the case of *Burma*, the principal change compared with prewar is a large increase in the proportion of imports from the United Kingdom, and a reduction in the share of the ECAFE region, especially of India. On the other hand, exports to the region (although not to India) increased to 90 per cent in 1946/47, while those to the United Kingdom declined. The small share of the United States in Burma's trade remained about the same. In 1947/48, there was a further substantial increase to almost 50 per cent in the United Kingdom's share of Burma's imports, while the region's share again declined. In the same period Burma's exports to the United Kingdom increased, almost to the prewar propor-

¹ Taiwan sugar is exported to the Chinese mainland and Taiwan, having been taken over by China, does not enter into international trade.

tion, while the region's share declined, although still remaining much above the prewar level.

Ceylon's imports from the region (in particular India and Burma), which were almost 50 per cent of its total imports in 1937, fell steeply by 1947 but recovered to about 34 per cent in 1948, thanks to a large increase in imports from Burma. Imports from the United States and Australia, on the other hand, in 1947 were substantially greater than prewar, but in the case of the United States declined in 1948. Imports from the United Kingdom were, in both 1947 and 1948, rather less than before the war. Imports from Japan in 1947 were much less than prewar, recovering appreciably in 1948. Ceylon's exports to the United Kingdom, almost 50 per cent of its total exports in 1937, also fell sharply in 1947 and remained at about the same level in 1948. Australia, Canada, South Africa and Egypt all increased their shares of Ceylon's exports in 1947, but except for Australia all experienced a decline in 1948. The share of the United States declined slightly in 1947 but increased in 1948, while that of the region declined in both 1947 and 1948.

The principal changes in *China's* import trade compared with prewar are the greatly increased share of the United States (from 20 per cent to about 50 per cent) and the reduction in the share of Japan. The share of the United Kingdom also declined sharply in 1947 but recovered to some extent in 1948. There has not been much change in the total share of the ECAFE region, although it increased somewhat in 1948; within the region's total, however, India's share increased substantially while Indonesia's declined. In regard to China's exports, the main changes compared with prewar are the increased share of the ECAFE region and the reduced share of Japan. However, since the former is almost entirely due to the increased proportion of exports to Hong Kong, whence they are largely re-exported, the increased share of the region is probably more apparent than real. The share of the United States (more than 25 per cent in 1936) declined slightly in 1947 and largely recovered in 1948. Exports to Japan also increased appreciably in 1948, although not nearly approaching the prewar proportion of 14 per cent.

It is not possible to assess accurately the proportion of *Hong Kong's* trade which is of an entrepôt character, but before the outbreak of the Sino-Japanese War in 1937 it was estimated that about two-thirds of the colony's imports were subsequently re-exported. Compared with prewar the main changes in 1947 in the sources of Hong Kong's imports were a steep reduction in China's share (although China is still the largest single supplier), and hence in the share of the whole ECAFE region, and considerable increases in the shares of the United States and the United Kingdom (now respectively the second and third largest

suppliers). Imports from Malaya, Macao and Siam increased, those from Japan, Indonesia and Indochina declined, and those from Germany were temporarily eclipsed. In 1948 these trends continued in regard to China, the United Kingdom and Siam, but the proportion of imports from the United States, Malaya and Macao declined slightly while those from Japan, Germany, Indonesia and Indochina increased. Also in 1948 there were significant increases in the shares of Burma, Canada, Netherlands, Italy, Sweden and Switzerland, the appearance of a substantial new supplier in the shape of Korea, and sharp reductions in the cases of Belgium and the Philippines. With certain exceptions, a tendency may be discerned in 1948 for the share of hard-currency countries to decline and of sterling area and relatively soft-currency countries to increase. As regards Hong Kong's exports, the main change compared with prewar again relates to China, which, while still remaining the largest market, has declined very greatly in importance both in 1947 and 1948. Nevertheless, the share of the ECAFE region as a whole has declined only slightly. In particular, exports to Malaya increased substantially in 1947, and to the Philippines and Siam both in 1947 and 1948. Exports to the United Kingdom and Japan declined in 1947 but recovered in 1948, whilst those to the United States went through a reverse process. Other significant export changes in 1948 were increases to Australia, India, West Indies, Macao (now one of Hong Kong's five principal markets), Indonesia, Switzerland and the Union of Soviet Socialist Republics, the emergence of Korea as an important market, and declines in exports to South Africa, Belgium, France, Netherlands, Sweden and Italy. Reduced exports to certain hard-currency countries may be partly attributable to the introduction in 1948 of more stringent regulations regarding surrender to the authorities of foreign exchange proceeds from exports, thus removing the individual trader's incentive to earn hard currency.

Comparing 1947 with prewar, the main changes in *India's* sea-borne import trade were a great increase in the share of the United States, the temporary elimination of Japan, and a decline in imports from the ECAFE region, in particular Burma. The year 1948 saw an apparent increase in the share of the region, but this would seem to be largely due to the appearance of Pakistan as a new trading unit.¹ There was an appreciable decline in the United States imports, while imports from Japan, although negligible in relation to the total, showed the first traces of recovery. The share of the United Kingdom was relatively stable in the three years under review; in 1948 it regained its position — lost to the United States in the previous year — of being India's chief supplier.

¹ A great part of Indo-Pakistan trade is by land, however, and does not appear in the figures under review.

Other important developments in 1948 were substantial increases in imports from Australia and Italy. In regard to India's sea-borne exports, the United States advanced substantially in importance compared with prewar; the United Kingdom declined in importance although still remaining India's greatest single market. Japan, after eclipse in 1947, showed marked signs of recovery in 1948. Also in 1948, while the United Kingdom and the United States markets declined slightly in importance, the ECAFE region apparently doubled its share of India's exports, but, as with imports, this would seem to be mainly the result of Pakistan's appearance as a separate market of major importance. In regard to other countries in the region, India's exports to Burma and Siam increased appreciably in 1948, while its exports to China declined. Outside the region, there were significant increases in exports to Argentina, Egypt and Cuba, and reduced exports to Belgium and Spain.

The trade of *Indochina* is conducted predominantly with France and the French dependencies. Compared with prewar, this concentration, in regard to both imports and exports, has tended to increase, being now about 60 per cent; in 1948, however, there was a striking change in the distribution of exports as between the metropolitan country and the dependencies, the latter increasing their share very considerably. The proportion of imports from the United States has increased very substantially, although there was some decline in 1948. Imports from the ECAFE region, on the other hand, were at a low level in both 1947 and 1948. The proportion of exports to the United States declined slightly as between 1938 and 1947 and steeply in 1948. Exports to the ECAFE region increased in proportion in 1947, but declined in 1948, notably to Hong Kong.

The most notable features of *Indonesia's* import trade in 1947 compared with prewar were the greatly increased dependence on the United States and the reduction in imports from Japan, formerly its largest single supplier. In 1948, however, the United States' share decreased sharply and that of Japan recovered strongly, reaching about 15 per cent of the total. Of Indonesia's small amount of exports in 1947, a very considerable part — about twice the prewar proportion — went to the Netherlands. With the considerable improvement in exports in 1948, however, the share of the Netherlands declined somewhat, although remaining considerably above the prewar level. There was also some recovery of exports to Japan.

Comparison of *North Borneo's* trade with prewar has not been possible as no prewar figures have been furnished. Rubber constitutes about two-thirds, in value, of its exports; in 1948 about 60 per cent of rubber

exports went to Singapore, 26 per cent to the United Kingdom and 8 per cent to the United States.

In the case of *Pakistan*, the periods 15 August to 31 March, 1948 (7½ months) and 1 April to 31 December, 1948 (9 months) are taken for purposes of approximate comparison. India is, of course, far and away the most important country in Pakistan's trade, particularly in regard to exports, Pakistan enjoying a very large export surplus. The United Kingdom comes next in importance; exports to the United Kingdom have tended to decline and imports from the United Kingdom to increase probably reflecting the release of sterling balances under the United Kingdom-Pakistan financial agreement. Imports have also increased from Italy, China, Ceylon and Malaya, while from the United States they have remained fairly stable. Exports to the United States have also been stable, and there has been a small surplus in Pakistan's favour. Among other markets of importance, exports to Spain, China, Hong Kong, Germany and Ceylon have increased while there have been slight falls in exports to the Union of Soviet Socialist Republics, France, Italy and Belgium. Exports to Japan have been fairly stable at a low level.

In the trade of the *Philippines*, the United States remains predominant, both as supplier and export market. Its share of Philippine imports has increased from about 60 per cent prewar to more than 80 per cent, while that of the ECAFE region, notably Indonesia, Malaya, Hong Kong, and Indochina, has declined, and that of Japan is only a small fraction of its prewar amount. As regards exports, the picture is rather different. The United States' share has fallen from about 80 per cent to about 60 per cent and there has been a significant diversification of markets. The ECAFE region, particularly Malaya and Indonesia, has taken a larger share, while other markets of increased importance are France, Denmark, Italy, Canada and Belgium. By contrast, Japan's share in 1947 was only one-tenth of prewar. The limited data available for 1948, however, show a striking recovery in Japan's share to almost the prewar level; the United States' share has also recovered a small part of its lost ground. It seems likely that the diversification of Philippine export markets will be maintained by substantial "offshore" purchases in the Philippines for recipient countries under the ECA programme.

Almost the entire trade of *Sarawak*, except for petroleum exports, is with Singapore. In 1947, however, there were a number of direct shipments of rubber, sago, and pepper to the United States, United Kingdom and European ports and there is a tendency for such shipments to increase. Direct shipments of petroleum were made to Sydney, Dutch Borneo and other destinations.

The principal changes in *Siam's* import trade compared with prewar are a substantial increase in the share of the United States, a reduction in that of the United Kingdom and the virtual disappearance of Japan. The share of the ECAFE region has increased. In regard to exports, the share of the region has declined slightly, while those of the United Kingdom and especially the United States have increased. Exports to Japan fell to negligible proportions.

The trade of *Singapore and the Malayan Federation* may be compared with the prewar trade of British Malaya. In regard to imports, the most notable changes were the reduced shares of Indonesia and Japan, and the increased shares of the United States and United Kingdom (10 per cent and 19 per cent respectively in 1947). There was little change in 1948, except that the United States' share increased slightly and imports from Japan showed signs of recovery. Imports from the ECAFE region, apart from Indonesia, remained steady at about 30 per cent in the three years under review. Within that total, however, the shares of Burma, Sarawak, Indochina and the Philippines increased, while those of China and Hong Kong declined. The share of exports to Indonesia and the rest of the region increased considerably compared with prewar and continued to do so in 1948, in particular to Siam, Ceylon, China, Indochina and the Philippines; exports to Hong Kong, however, declined. The share of the United Kingdom increased in 1947 and declined slightly in 1948, while that of the United States declined considerably both in 1947 and 1948. Exports to Japan slumped in comparison with prewar, and increased only very slightly in 1948. Other noteworthy changes in 1948 were considerably increased exports to the Union of Soviet Socialist Republics, Germany, Denmark, Netherlands, Sweden, Turkey, Poland and New Zealand, and reduced exports to Belgium and Argentina. By and large, these changes reflect the increased demand for rubber and tin arising from the quickening pace of European recovery.

Main Trends

The most striking change between 1937 and 1947 in the distribution of trade of countries of the ECAFE region (with the exception of Burma) was the greatly increased dependence on imports from the United States. Table 69 suggests that, for the region as a whole, this increase was of the order of three to four times the prewar proportion. On the export side, the general tendency seems to have been the reverse, namely a reduced proportion of exports to the United States, notably on the part of *Singapore and the Malayan Federation* and of the Philippines; there was an appreciable increase, however, in the cases of Siam, India and Hong Kong.

TABLE 69

*Trade of ECAFE countries^a with the United States expressed as
Percentages of Their Total Imports and Exports*

Country	Imports from U.S.A. (per cent)			Exports to U.S.A. (per cent)		
	1937	1947	1948	1937	1947	1948
Burma ^b	4.3 (1937/38)	4.3 (1946/47)	3.9 (1947/48)	0.2 (1937/38)	0.2 (1946/47)	0.2 (1947/48)
Ceylon ^c	2.6	12.1	7.6	16.0	14.3	18.1
China ^d	19.7 (1936)	50.2	46.4	26.4 (1936)	23.3	25.2
Hong Kong ^e	8.4	19.3	18.7	8.8	12.5	9.6
India ^f	6.4	29.8	24.7	10.3	20.1	18.8
Indochina ^g	5.1 (1938)	19.3	14.2	8.8 (1938)	7.9	2.8
Indonesia ^h	10.2	39.0	21.9	18.7	18.7	17.6
Philippines ⁱ	58.0	86.0	84.4	81.7	57.3	62.7
Siam ^j	5.0 (1937/38)	23.8	..	0.7 (1937/38)	7.8	..
Singapore ^k and Malayan Federation	2.3	10.1	11.9	44.2	33.9	27.4

^a Pakistan is not included because figures for land-borne trade, which forms the bulk of Pakistan's trade, are not available.

^b Prewar figures from *Statistical Abstract for the British Commonwealth, 1936-45*. Postwar figures from Government of Burma, 1947/48, nine months only. Postwar import figures are based on "private" imports only.

^c Prewar figures from *International Trade Statistics, 1938*, League of Nations. Postwar figures from *Ceylon Trade Journal*, February and October, 1948. 1948, eight months only.

^d Chinese Maritime Customs, 1936, 1947, 1948. 1948, nine months only.

^e Prewar figures from *Statistical Abstract for the British Commonwealth, 1936-45*. Postwar figures from Supplement No. 4 to *Hong Kong Government Gazette, 1948*.

^f Prewar figures from *International Trade Statistics, 1938*, League of Nations. Postwar figures from *Monthly Abstract of Statistics, 1948*, Government of India. 1947 and 1948 figures relate to sea-borne trade, and include sea-borne trade with Pakistan.

^g *Economic Survey of Indochina, 1948* and *Bulletin économique de l'Indochine*, December 1948. 1948, ten months only.

^h Prewar figures from *International Trade Statistics, 1938*, League of Nations. 1947 figures, Central Bureau of Statistics, Batavia. 1948 figures, nine months only, from *Economic Review of Indonesia*, Oct., Nov. and Dec. 1948.

ⁱ Prewar figures from *International Trade Statistics, 1938*, League of Nations. Postwar figures from *American Chamber of Commerce Journal* and *Review of Philippines Business Conditions*, 2 October, 1948. 1948 figures, six months only.

^j Prewar figures from *International Trade Statistics, 1938*, League of Nations. 1947 figures, estimate of nine months only, from Department of Customs, Bangkok.

^k Prewar figures for British Malaya from *International Trade Statistics, 1938*, League of Nations. Postwar figures from *Malayan Statistics, 1948*, eleven months only.

TABLE 70

*Trade of ECAFE Countries with Rest of the ECAFE Region^a
expressed as Percentages of Their Total Imports and Exports*

Country	Imports from rest of ECAFE region (per cent)			Exports to rest of ECAFE region (per cent)		
	1937	1947	1948	1937	1947	1948
Burma	51.6 (1937/38)	46.5 (1946/47)	34.5 (1947/48)	66.3 (1937/38)	90.3 (1946/47)	85.0 (1947/48)
Ceylon	49.6	21.5	34.3	6.0	4.2	2.1
China	18.1 (1936)	17.7	20.2	23.5 (1936)	47.8	47.4
Hong Kong	57.8	43.3	37.8	62.7	61.4	58.3
India	16.4	6.7	12.7	10.0	11.5	23.9
Indochina	23.7 (1938)	12.6	11.6	23.6 (1938)	35.0	25.9
Indonesia	14.6	20.2	15.5	25.1	24.2	22.4
Philippines	10.4	4.6	..	2.0	7.1	..
Siam	47.6 (1937/38)	58.6	..	82.8 (1937/38)	78.0	..
Singapore and Malayan Federation	65.1	52.4	50.6	12.1	23.4	25.3

^aFor sources and bases of figures see footnotes to table 69. The ECAFE region is taken to include British North Borneo, Brunei, Sarawak, Burma, Ceylon, China, Hong Kong, India, Indochina, Indonesia, Malayan Federation, Singapore, Nepal, Pakistan, Philippines, Siam. Figures are approximate in so far as, in certain cases, statistics for trade with all these territories are not available.

TABLE 71

*Trade of ECAFE Countries with the United Kingdom
expressed as Percentages of Their Total Imports and Exports^a*

Country	Imports from U.K. (per cent)			Exports to U.K. (per cent)		
	1937	1947	1948	1937	1947	1948
Burma	19.7 (1937/38)	35.6 (1946/47)	47.6 (1947/48)	17.1 (1937/38)	7.2 (1946/47)	12.4 (1947/48)
Ceylon	22.3	16.5	17.0	45.6	34.0	36.4
China	11.7 (1936)	6.9	8.4	9.2 (1936)	6.6	6.7
Hong Kong	7.6	10.6	14.5	4.5	3.1	4.7
India	31.5	28.7	29.1	31.4	25.9	22.9
Indochina	..	1.7	..	..	..	..
Indonesia	8.3	7.7	7.4	5.3	2.6	2.2
Philippines	2.4	0.6	0.8	3.7	3.2	0.1
Siam	12.2 (1937/38)	6.6	..	1.6 (1937/38)	2.7	..
Singapore and Malayan Federation	15.7	19.3	19.0	11.1	16.1	14.1

^aFor sources and bases of figures, see footnotes in table 69.

TABLE 72

*Trade of ECAFE Countries with Japan expressed as
Percentages of Their Total Imports and Exports*

Country	Imports from Japan (per cent)			Exports to Japan (per cent)		
	1937	1947	1948	1937	1947	1948
Burma	8.5	—	0.2	2.3	0.2	0.1
	(1937/38)		(1947/48)	(1937/38)	(1946/47)	(1947/48)
Ceylon	6.7	0.7	1.4	0.8	—	0.1
China	16.3	1.7	0.2	14.4	1.9	4.3
	(1936)			(1936)		
Hong Kong	9.4	2.4	3.8	4.2	1.3	3.1
India	14.0	—	0.2	12.4	—	1.4
Indochina	..	0.2	..	..	—	..
Indonesia	25.4	8.1	15.1	4.5	1.5	2.9
Philippines	14.8	0.2	..	6.0	0.6	5.0
Siam	19.8	—	..	3.5	—	..
	(1937/38)			(1937/38)		
Singapore and Malayan Federation	5.8	0.5	0.7	6.7	1.1	1.1

* For sources and bases of figures, see footnotes in table 69.

Table 70 shows how, during the same period, there was a tendency for intra-regional trade to decline. Main exceptions to this tendency were on the import side, Siam and Indonesia, and on the export side, Burma, China, Indochina and Singapore and the Malayan Federation.

There was a marked decline in the region's trade, especially export trade, with the United Kingdom (see table 71). In regard to exports this is hardly surprising in view, on the one hand, of the region's postwar production difficulties and, on the other, of Britain's acute balance of payments position. A notable exception was Singapore and the Malayan Federation, where the United Kingdom's share of both imports and exports increased. The United Kingdom's share of imports increased also in the cases of Burma and Hong Kong.

Table 72 shows an almost total collapse in the region's trade with Japan. The first significant indications of recovery are to be found in Japan's trade with Indonesia and Hong Kong, while there was also some trade with China and Singapore and the Malayan Federation.

The most significant development in 1948 was a marked reduction in the degree to which the region had, since the war, become dependent on imports from the United States. In every country of the region for which data are available, with the sole exception of Singapore and the Malayan Federation, the year 1948 saw a decline in the proportion of

imports obtained from the United States. This was doubtless due to more stringent control of dollar imports dictated by dollar shortage. Moreover, on the export side, there was in certain cases a tendency for the proportion of exports going to the United States also to decline. None the less, it seems clear that in 1948 there was a definite trend towards rectifying the acute lack of balance in the trade of the region with the United States (see Table 75). It may be noted that, of the countries of the region, only Ceylon, Pakistan, and Singapore and the Malayan Federation appear to have export surpluses in relation to the United States.

Generally speaking, the proportion of intra-regional trade remained stable in 1948. Ceylon's imports from the region increased considerably, however, and Indochina's exports to the region declined. The apparent increase in India's trade with the region was, as already noted, probably due to the entry of Pakistan as a new trading unit in the region.

The year 1948 saw a marked increase in the region's trade with the United Kingdom, particularly in regard to imports, doubtless reflecting the progress of the British export drive and the fact that for many countries in the region sterling is relatively plentiful.

The region's trade with Japan, particularly its exports, also increased considerably in 1948, although still a long way below prewar levels. The relative increase of exports was so marked that, at any rate over the first 6 to 9 months of 1948, the region as a whole would have had a large export surplus in its trade with Japan but for Indonesia's very large import surplus, representing mainly purchases of Japanese textile manufactures. The rather surprising existence of export surpluses is most probably due to countries of the region (notably India and the Philippines) having allowed such surpluses to accumulate in firm anticipation of the early availability of essential supplies from Japan.

In general it would seem too early to judge how far changes in the distribution of the region's trade, compared with prewar, may be regarded as permanent. The year 1948 indeed saw a general trend back towards the prewar pattern. One change may be noted, however, which is probably of a lasting character: assuming that the relative decline in the price of natural rubber persists, the proportion of Malayan exports to the United States is unlikely to recover to its prewar level.

Other noteworthy features of the distribution of regional trade, particularly as between 1947 and 1948, were as follows:

(i) There was a continued, albeit decreasing, lack of balance in trade with the United States. Even the reduced imports in 1948 depended to a large extent on dollars obtained through non-commercial channels, e.g., ECA aid to China and Indonesia, special postwar payments by the

United States to the Philippines, and purchase of dollars by India from the International Monetary Fund.

(ii) The distribution of the entrepôt trade of Hong Kong and Singapore evinced a fluid pattern, which suggests ability to grasp new trade openings quickly, cf. the development of Hong Kong's trade with Korea in 1948.

(iii) There was some evidence of increased exports of industrial raw materials to certain countries of Europe and the Union of Soviet Socialist Republics. As regards the former, this tendency may be accentuated in future by "offshore" purchases under the ECA programme.

(iv) Most of the trade and financial arrangements described in the next section of this chapter were concluded too recently to have any significant effect on trade in 1948. However, India's increased imports from Australia and increased exports to Argentina and Egypt in 1948 were probably the result of the agreements with those countries. It is perhaps significant that these effects are noticeable only in one direction; this illustrates the time lag which often occurs before the completion of the actual physical exchange of goods under bilateral arrangements. The arrangements for gradual release of sterling balances are reflected in the well-sustained volume of imports by Ceylon, India and Pakistan from the United Kingdom.

TRADE AND PAYMENTS ARRANGEMENTS

The commercial and financial arrangements negotiated by countries of the ECAFE region may be roughly classified as follows: Sterling Area, SCAP, intraregional, other arrangements. After a brief description under these heads of arrangements concluded during the year, there follows an analysis of their advantages and limitations.

Sterling Area Financial Arrangements

Of the countries in the ECAFE region, India, Pakistan, Ceylon, Burma, the Malayan Federation and (with qualifications) Hong Kong are members of the Sterling Area. Trade both among these countries and between them and the members of the Sterling Area outside the ECAFE region is conducted in sterling, and their current sterling earnings are freely usable within the Sterling Area for current and approved capital transactions. Having regard to the considerable volume of trade which each of the Sterling Area countries in the ECAFE region has with the United Kingdom in particular and the Sterling Area as a whole, the Sterling Area mechanism provides facilities whereby a considerable volume of extraregional trade is conducted without recourse to special financial or bilateral arrangements. Likewise it facilitates the conduct of a considerable volume of intraregional trade.

Special bilateral arrangements between the United Kingdom, on the one hand, and India, Pakistan, Burma, Ceylon and the Malayan Federation, on the other, relate to (a) the release of blocked sterling balances and/or (b) allocations of hard currency out of the Sterling Area pool. (See table 73.) In 1948 the United Kingdom entered into agreements with India and Pakistan for the release of blocked sterling balances, including the proportion to be convertible into hard currency, for a period of three years ending June, 1951; with Ceylon for the release of sterling balances and hard-currency allocation during the second half of 1948; and with Burma which has no blocked sterling balances) for a hard-currency allocation in the second half of 1948. India, Pakistan and Burma do not transfer their current hard-currency earnings to the Sterling Area dollar pool, while Ceylon and the Malayan Federation do so and receive dollar allocations according to their needs.

TABLE 73
Release of Sterling Balances and Dollar Allocations

Country	Period	Sterling release for current transactions (\$ million)	Sterling working balance (\$ million)	Hard currency allocation (\$ million)
India	15, Aug. to 31, Dec. 1947	35	30	No limit
	Jan.-June 1948	18	26	40
	July 1948-June 1949	—	No addition to working balance	60
	1949-1951	80	Not decided	Not decided
Pakistan	Jan.-June 1948	6	14	3.3
	July 1948-June 1949	10	12	5
	1949-1951	10	Not decided	Not decided
Ceylon	June-Dec. 1948	3.5	4 to 5	3
Burma	July-Dec. 1948	—	—	8

SCAP Arrangements

A notable development has been the negotiation by SCAP of trade and payments arrangements with several countries of the region, and notably with the Sterling Area. The trade and payments arrangements with the Sterling Area are the first example in the region of an arrangement involving a large measure of a multilateral clearing.

Trade with Japan was hampered by the fact that payment had to be made in dollars, which the Sterling Area was not in a position to expend, while Japan's imports from the Sterling Area were limited by shortage of foreign exchange. The payments arrangements concluded during the year appreciably eased these difficulties by providing that all

trade between SCAP and the Sterling Area was to be conducted on a sterling basis. Any sterling acquired by SCAP in connexion with such trade was to be fully utilizable for payments within the Sterling Area. SCAP could exercise the right of converting sterling into dollars at any time that such conversion was considered necessary for the protection of Japan's foreign exchange assets or provided that there was no reasonable prospect of utilizing sterling within the Sterling Area for a substantial period. SCAP would, however, normally convert sterling balances into dollars only at intervals of six months, retaining a balance sufficient to meet estimated near-term commitments in the Sterling Area. Countries of the ECAFE region, signatories to the payments agreement, were Burma, Ceylon, India, Singapore and the Malayan Federation and Pakistan. The Trade Plan, which aimed at expanding trade between SCAP and the Sterling Area and balancing it at the highest practicable level, comprised lists of commodities expected to be traded between Sterling Area participants and Japan. While not constituting a commitment or being restrictive in any manner, it represented the estimated volume of trade between the two parties during the year ending June, 1948. Each party undertook, subject to qualifications, to expend on imports from the other party the full amount of the proceeds from exports to that country. Of the ECAFE region, India and the Malayan Federation and Singapore were participants in the Trade Plan. Under this plan, sales by the Sterling Area were estimated at \$106 million worth of goods, including iron-ore, salt, raw cotton, cereals, rubber, tin, manganese, hides and skins and other raw materials as against estimated sales by Japan of goods of the value of \$109 million, consisting of cotton and silk textiles, industrial machinery, rolling-stock, caustic soda, and other manufactured articles. Trade negotiations have also been entered into with SCAP by Pakistan, Ceylon and Burma, other Sterling Area countries in the region, with a view to concluding similar trade plans, which, when finalized, would operate within the framework of the SCAP-Sterling Area payments arrangement.

During the year SCAP also concluded trade arrangements with the following: Netherlands (including Indonesia and colonies), the French Union (including Indochina and sixteen other French territories), Egypt and Siam. The principal features of these agreements are: (1) trade is conducted on an open account basis in terms of US\$; (2) the account is settled semi-annually in US\$; and (3) quantitative lists of goods are prepared, representing the volume of trade expected to take place between the two parties during the year. Trading on open account without trade agreement is conducted by SCAP with China, the Philippines and Hong Kong.

Intraregional Trade Arrangements

Important bilateral arrangements concluded during the year between countries of the region were as follows: India-Pakistan, Malaya-Indonesia, China-Hong Kong, and China-Indonesia. The last-named was a barter pact, while the China-Hong Kong pact aimed at the prevention of smuggling. The Indonesia-Malaya agreement made provision *inter alia*, whereby Indonesia could receive payment in United States dollars from Singapore and the Malayan Federation for its estimated net export balance (through Singapore and the Malayan Federation) to United States dollar areas; trade between the two parties was to be conducted in Malayan dollars.

The Pakistan-India trade and payments agreements represent a notable effort in intraregional co-operation. Under the agreement for the mutual supply of essential commodities, effective for a year from July, 1948, and reviewed and revised in October and December of the same year, India and Pakistan agreed to supply each other with specified quantities of numerous commodities, of which they stood in mutual need as the result of partition. Pakistan agreed to supply India with food-grains at the same prices as were charged to its own deficit provinces. India agreed to supply coal, paper and steel to Pakistan at internally controlled prices. In addition, certain barter pacts for the exchange of rice and wheat from Pakistan for other commodities from India were also concluded during the year. Agreement was also reached for the supply of cloth to Pakistan. With effect from July, 1948, for one year, a payments agreement was also concluded between India and Pakistan, the main features of which were: (1) there would be no exchange control as between the two countries; (2) the central banks of the two countries agreed to hold each other's currency up to a limit; (3) in the event of the limit being exceeded, the necessary adjustments would be made in sterling. These provisions were calculated to ensure that payments difficulties did not hamper trade.

Negotiations were well under way for a trade agreement between Pakistan and Ceylon whereby the latter would supply Pakistan with specified quantities of copra and coconut oil for the year 1949 in exchange for the supply of certain food products from Pakistan; also between Siam and India, whereby India was to supply jute, diesel engines, and other manufactured goods in exchange for rice, timber and tin from Siam. India also has trade arrangements under negotiation with Ceylon and Burma.

Other Arrangements

Among other trade arrangements, those entered into by India with countries outside the ECAFE region are important both for their num-

ber and their effects on the trade and production of India. India's agreements during the year were: with Western Germany (Bizonia), effective for one year from July, involving the export of oil seeds and oils, jute, mica, lac, etc., from India to the value of US\$12 million in exchange for the supply by Germany of machinery, electrical equipment, steel, chemicals and other producer goods to the value of US\$20 million, the balance to be settled in United States dollars; with Argentina for the supply of 385,000 tons of wheat in exchange for Indian jute; with the Union of Soviet Socialist Republics, on two deals, for the exchange of 150,000 tons of wheat for 15,000 tons of Indian tea; with Egypt, for the exchange of rice against India's export of Argentine maize; with East Africa and Sudan for the bulk purchase of cotton; with Australia for 680,000 tons of wheat; and with Belgium, for 100,000 tons of steel, 8,000 tons of zinc and copper, etc., in exchange for 100,000 tons of manganese, jute, tea, linseed, etc. Further agreements are under negotiation with Italy, France, Hungary, Sweden, Afghanistan, Iran and Iraq.

Mention should also be made of China's agreements with Italy and France, involving values of US\$2 million and US\$500,000 respectively, Ceylon's agreement with the United Kingdom for the bulk sale of coconut products at specified prices for 1948 and 1949, and Pakistan's contract with Russia for the purchase of 60,000 tons of wheat. The trade agreements concluded by France with Italy, Switzerland, Spain, Denmark, Portugal, Netherlands, Sweden, Finland, Norway, Greece and Czechoslovakia include provision for trade with Indochina, especially the supply of commodities such as dairy products, machinery, electrical appliances, transport equipment etc.

Advantages and Limitations

Although not on the European scale, countries of the ECAFE region have entered into bilateral trade arrangements in a significant measure; so also has Japan. Almost all countries of the region have resumed trade with Japan either on open account basis, or, more usually, by means of bilateral agreements.

The Sterling Area arrangements enable a considerable degree of intraregional and extraregional trade to be conducted without the need for special payments agreements. The arrangements regarding the release of blocked sterling balances and hard-currency allocations reinforce the sterling area multilateral system. The SCAP-Sterling Area trade and payments arrangements represent a notable effort to extend in some degree the practice of multilateral clearing to trade with Japan.

The conclusion by India of a number of bilateral agreements, particularly with countries outside the region, has enabled it to obtain supplies

of urgently needed food-grains, capital equipment and essential materials such as steel, other metals and cotton, which are having a stimulating effect on home production. The arrangements provide so far as possible for a balancing of mutual need, so as to avoid settlement of balances in foreign exchange.

Although these bilateral arrangements are a useful expedient, experience of their working has revealed numerous difficulties and also scope for improvement in their efficiency and flexibility. The difficulties experienced lie mainly in the strict bilateral balancing of accounts, disparities and fluctuations in deliveries due to seasonal and other factors, partial non-fulfilment of contracts, compulsory periodical settlement in acceptable currency or, alternatively, accumulation of the deficit partner's currency by the other country. Examples are: the delay in India's delivery of jute to Argentina in exchange for food-grains; the delay in India's delivery of textiles, coal, and other manufactured articles to Pakistan, and in Pakistan's delivery of raw jute, cotton and food-grains, due to time disparities and transport and seasonal factors; time disparities in deliveries between Japan and other countries in the region, resulting in either temporary extension of credit or a delay in trade; the virtual cessation of Japan's exports to China in 1948 due to a debit balance which China was unable to settle in dollars; difficulties in barter trade with China due to the offer by China of goods of a luxury or non-essential character; the accumulation by Siam of Indian rupees out of the proceeds of rice exports (this enabled Siam to repay the Indian rupee loan of 1946); and the accumulation by Pakistan of Indian rupees due to a positive trade balance.

It would appear that some countries of the region may not have availed themselves fully of the increase in trade possible within present production capacity by means of trade agreements. To some extent bulk sale commitments may limit the freedom of bargaining of these countries. However, the fact that many of these countries have only a few limited export commodities to offer underlines their need to make the most useful disposition of them, without prejudice, however, so far as possible, to the benefits of a steady and assured market for their products. The trade agreements of India and Pakistan with European countries point to the possibilities open to other countries.

Unlike the European bilateral agreements, those of the ECAFE region for the most part do not provide for mutual credit margins. Exceptions were the India-Pakistan agreements. The trade agreements of France and the Netherlands, including trade arrangements for Indochina and Indonesia respectively, are covered by the payments arrangements of the respective monetary areas. For the rest, credit margins are lacking.

This may be accounted for by lack of central banking or other technical facilities, instability of currencies, or fear of accumulating unusable currencies.

Several of the difficulties of bilateral pacts derive from their short terms — generally one year. Where the delivery of certain agreed products takes time or is contingent on the fruition of a production project involving the initial import of capital equipment and financing of the production period, the negotiation of medium-term agreements, including such financing, is essential if the trade is to materialize. Such opportunities may be found in the supply of capital equipment by Japan and other advanced industrial countries for the production and export of mining products by Burma, Malaya, Indonesia, the Philippines and Indochina.

It was seen earlier in this chapter that the ECAFE region is now a large net importer of cereals, including even rice, to the extent of about 3 million tons per annum. Before the war, the grain trade was integrated with the broad multilateral system of international payments and exchange and gave rise to no exchange and payments difficulties. But the problem is now different. The net imports of the region come largely from the Western Hemisphere countries, and involve payment in hard currency. The importing countries are unable, owing to lack of foreign exchange, to place firm orders over 3 to 5 years and owing to the uncertain export prospects the exporting countries of the Western Hemisphere are discouraged from maximum production. Furthermore, the rice-exporting countries in Asia and the Far East urgently stand in need of transport equipment, agricultural requisites, and other capital equipment and consumer goods for the rehabilitation of their ravaged agricultural economy; but the rice-importing countries of the region are unable to supply these requirements. Consequently the rice-surplus countries are seeking to divert their surpluses to foreign markets which can either provide dollar exchange or needed goods. Thus the food import problem of the region raises acute problems of foreign exchange. Existing international aids, such as ECA assistance to Korea and China and United States assistance to Japan, do not directly help other importing countries. Long-term financing facilities and special trading arrangements are needed to relieve the position. Existing short-term bilateral arrangements are not adequate.

INTERNATIONAL COMMODITY ARRANGEMENTS

Several commodities of vital importance to the ECAFE region are the subject of international arrangements which, in greater or less degree, conform to the principles for inter-governmental commodity agreements laid down in chapter VI of the Havana Charter for an International

Trade Organization. Serious divergence from those principles arises only in particular cases where arrangements date from before the drafting of the charter. In general, although the charter is not yet in force, it will be seen that there has already been a marked tendency — evidenced in particular by the establishment of the Interim Co-ordinating Committee for International Commodity Arrangements (see below) — towards conformity with the principles which it establishes in regard to commodity agreements. In practice, no agreements, as yet, come within the category of "commodity control agreements", defined in article 61 of the charter as an inter-governmental agreement involving "(a) the regulation of production or the quantitative control of exports or imports of primary commodity and which has the purpose or might have the effect of reducing, or preventing an increase in, the production of, or trade in, that commodity; or (b) the regulation of prices". Arrangements are, at present, mainly of a study group character, and, so far as the ECAFE region is concerned, the only significant forms of inter-governmental commodity "control" are the allocation of rice, wheat and nitrogenous fertilizers through the International Emergency Food Committee of the FAO¹ and that of tin metal through the Combined Tin Committee. Inter-governmental agreements, which would probably rank as control agreements, are, however, being currently considered in respect of wheat and tin.

The information which follows, regarding developments during 1948 in commodity agreements affecting the ECAFE region, is mainly drawn from the publications of the Interim Co-ordinating Committee for International Commodity Arrangements (ICCICA),² the body established in 1947 by the Economic and Social Council "to keep informed of and to facilitate by appropriate means . . . inter-governmental consultation or action with respect to commodity problems".

The significance for the ECAFE region of chapter VI of the Havana Charter, of ICCICA, and of existing commodity arrangements lies in the fact they they represent a widespread recognition of the fact that trade in primary commodities is subject to special difficulties which may call for inter-governmental action. Such action, which must strike a fair balance between the interests of producers and consumers, will, it is hoped, spare the region some of the worst problems which beset it in the interwar years.

¹ See *Report of the International Emergency Food Committee for the Council of FAO at its Second Session*. FAO, March, 1948.

² *Review of International Commodity Problems*, 1948 (U.N. 1948 II D.6) and *Review of International Commodity Arrangements*, 1947. (U.N. 1947 II 9.)

The *International Cotton Advisory Committee* has been in existence since 1940, but was put on a formal basis only in 1946. Its function is to keep the world cotton position under continuous review. Membership at present numbers twenty-eight, and consists of Governments of both producer and consumer countries. The Committee held meetings in June, 1947, and April, 1948, and set up a standing committee to function between the annual meetings of the Committee itself. Steps were taken to improve cotton statistics.

Arising from the report of a meeting of rice experts in Trivandrum, India, in 1947, the *International Rice Meeting* was held under the joint sponsorship of FAO and ICCICA at Baguio, in the Philippine Republic, in March, 1948. This meeting made a number of recommendations¹ on such matters as measures to increase area, yield, and efficiency of rice production; rice marketing and distribution; nutritional measures; a world-wide rice conservation campaign; and a three-year programme for an expanding rice economy. Recommendations included the establishment of (i) a Far East Rice Investigation Committee, to consist of government-appointed scientists and technicians, (ii) an international working party of plant breeders to draft a programme of rice improvement, (iii) a Far East Veterinary Committee (by FAO in consultation with the International Bureau of Epizootics), and (iv) national rice conservation committees. The principal organizational recommendation, addressed to the Council of FAO, was for the establishment of an International Rice Council (subsequently termed an "International Rice Commission" to distinguish it from the commodity "councils" which may be set up to administer commodity control agreements under the terms of the Havana Charter) "to deal co-operatively on the international level with the problems of rice production, conservation, distribution, and consumption" except in matters relating to international trade — the latter being considered to be within the competence of other international agencies. Among such matters relating to international trade were certain suggestions by the Trivandrum rice meeting regarding international price agreements,² and it was recommended that these should be "referred by the Council of FAO, in consultation with the ICCICA, to such international agencies as have competence to deal with them".

The first meeting of the *International Rice Commission* was held in Bangkok in March, 1949. Recommendations adopted included the following: to collect information on the mechanization of rice cultivation, including its economics; to establish a working party on rice breed-

¹ Report of the Rice Meeting, 1-13 March, 1948. FAO, June, 1948.

² Report of the Rice Study Group, 16 May-6 June, 1947, Chapter VII. FAO, July, 1947.

ing; to collect descriptions of standard varieties of rice; to collect information on soil, climatic, geographical, and social factors affecting rice yields; to collect data on control of crop disease and on fertilizer practices; to publish a newsletter informing member countries of data collected; to express rice statistics in the metric systems; to utilize by-products of the rice plant, such as rice straw, husk and bran, for manufacture of industrial and food products; to adopt a standard "rice year" for statistical purposes; to ask FAO to establish statistical advisory and research units in its regional offices; to encourage use of under-milled rice; to standardize terminology in rice grading; to collect data on methods of rice storage.

The *Rubber Study Group* was formally established in 1947. At its meeting in April, 1948, the following countries were appointed members of the Management Committee: Ceylon, France, the Netherlands, the United Kingdom, the United States and the British Colonies. The Group meets periodically for discussion of "common problems arising from the production or consumption of, or trade in, rubber", including examination of the world position and prospects of natural and synthetic rubber and the preparation of estimates.

There is also an *International Rubber Development Committee*, whose purpose is to encourage the development and expansion of the use of natural rubber. This is a producers' organization, representing British, French and Netherlands interests. It maintains close liaison with the Rubber Study Group.

An *International Silk Congress* was held in Lyons in June, 1948, at the invitation of the French Government, to consider problems of the silk industry, particularly the competition of rayon and nylon. Delegates of twenty-four countries, including China and Japan, attended, representing both producer and consumer interests. The Congress, which was concerned with both raw silk and silk manufactures, adopted a number of resolutions on such matters as the desirability of price stability and the need for restrictions on the use of the term "silk". It also resolved that it was necessary to establish an international organization, representative of all countries and professions interested in silk, while reserving for each its particular autonomy within the organization.

The *International Sugar Council* was set up in 1947 to administer the "Agreement concerning the Regulation of Production and Marketing of Sugar" concluded in that year. The agreement was initially for a period of five years, and has subsequently been extended by a series of protocols, the most recent extension being until 31 August, 1949. The later protocols contained two new provisions:

- (a) Recognition by the signatories that revision of the agreement will be necessary and should be undertaken when the time appears opportune, discussion of such revision to take the existing agreement as a starting point and account to be taken of any general principles of commodity policy embodied in any agreements which may be concluded under the auspices of the United Nations.
- (b) That the quotas fixed in the agreement should be inoperative during the period of the protocol.

At a meeting in August 1948, the Council agreed to appoint a committee,

- “(i) To study the changing sugar situation as it relates to the need or desirability for negotiating a new agreement and
- “(ii) To report to the Council, as occasion arises, its finding and recommendations as to the public bases for a new agreement in the future.”

The *International Tea Agreement*, covering producer interests in Ceylon, India, Indonesia and certain British dependencies in Africa, expired in March, 1948. Prewar restrictions under the agreement have been inoperative for some considerable time in face of world shortage. Arrangements have been made for the continuance of the International Tea Committee, and negotiations are proceeding for an interim continuation of the agreement with certain modifications, pending the possible conclusion of an agreement conforming with the principles of the Havana Charter.

The FAO is sponsoring a number of regional conferences on *timber*. The first of these was held in Czechoslovakia in 1947, and the second in Brazil in 1948. An International Forestry and Timber Utilization Conference for Asia and the Far East was held in Mysore in March, 1949. Subjects considered included measures to expand production, grading of lumber, needs for trained foresters, protection and development of resources, and various aspects of industrialisation.

The *International Tin Study Group* was formed in 1947, subsequent to the formal dissolution of the International Tin Committee, which had administered the prewar tin control scheme. The Study Group met twice in 1948; on the first occasion, in the light of its discussion of the world statistical position of tin and estimates of production and consumption for 1948-1950, the meeting recommended to member Governments the establishment of a Working Party to examine the appropriateness and practicability of framing an inter-governmental agreement on tin, conforming to the general spirit and principles of the Havana Charter. At

its meeting in October, 1948, the group received the report of this Working Party, reached agreement on the desirability of a commodity agreement based on the principles of the Charter, and appointed a committee to draft an agreement for consideration by member Governments.

The present membership of the Study Group numbers fourteen, and includes both producer and consumer countries. The British Colonies, China, France, India, the Netherlands, Siam, the United Kingdom and the United States are among the members. Tin metal continues to be subject to international allocation through the *Combined Tin Committee*, an international body consisting of Belgium, Canada, China, France, India, the Netherlands, the United Kingdom and the United States.

Quite distinct from these inter-governmental bodies is the *International Tin Research and Development Council*. This represents producers in the main producing countries, and conducts research activities through a *Tin Research Institute*.

In recent years several attempts have been made to secure an international agreement to prevent wide fluctuations in the price of wheat. In March, 1948, an *International Wheat Agreement* was signed by thirty-six countries, which would have provided for sales and purchases of fixed quantities of wheat within agreed price limits over a five-year period. The agreement failed to come into operation, however, since some countries failed to ratify and others withdrew. A further agreement has since been drawn up, involving five exporting and thirty-seven importing countries, which if ratified will operate for four years from 1 August, 1949.

The *International Wheat Council* is the body responsible for inter-governmental co-operation in matters relating to wheat. Its membership numbers twenty-six, and is representative both of countries mainly interested as producers and of those mainly interested as consumers.

CHAPTER XIII

Balances of Payments

A satisfactory survey of balances of payments of countries of the ECAFE region is difficult because of limitation of data. For three countries at least, namely, Burma, Malaya and Pakistan, estimates are not available. For other countries, estimates, although available, are not complete or continuous. In general, much less information is available on capital than on current account. Consequently it is difficult to explain in many cases how deficits or surpluses on current account have been financed. Again, since in many cases prewar estimates are either not available at all or available only in incomplete form, it is difficult to assess the nature and extent of the changes that have taken place since the war. A further difficulty is that, in regard to most invisible items, only estimates on a global basis are available, not their distribution by countries. Consequently, the balance of a particular country or of the whole region with another country or region cannot be exactly ascertained. Lastly, since the accounts are drawn up in different forms in different countries and the definition and classification of items vary, it is difficult to make any country-wise comparisons or regional summaries.

OVERALL BALANCES

Although a detailed study is difficult, a general picture can be given on the basis of available statistics. Table 74 seeks to give a summary view of the prewar and postwar balances on current account of countries of the region in terms of current United States dollars.

Table 74 indicates two important changes in the postwar pattern of the balances as compared with prewar.

1. All countries except the Philippines, Pakistan and Siam have developed large over-all deficits. Actually, the Philippines has a heavy deficit on trade account, but it is at present more than offset by special receipts from the United States Government on the services account (Army and Navy expenditure, expenditure for war damage, veterans' pensions, personal disability claims, etc.). These receipts are not a normal or permanent feature of

TABLE 74
Summary View of Balances of Payments on Current Account
 (in million US\$)

Country	Merchandise	Interest, dividends and services	Total	1947			1948		
				Merchandise	Interest, dividends and services	Total	Merchandise	Interest, dividends and services	Total
Burma	96	..	—	—	—	—	—	—	—
Ceylon	11	— 39.9	— 28.9	— 19 ^a	— 34	— 53	+ 28 ^a	— 21	+ 7
China	94	+ 107.4 ^c	+ 13.4	+ 267.8 ^b	+ 78	+ 189.8	+ 53 ^a	..	..
Hong Kong	22	..	—	— 74	..	—	— 126	..	..
India	94	— 204.1 ^d	— 110.1	— 170 ^e	— 90.4 ^f	— 260.4	— 123	— 90.4 ^f	— 213.4
Indochina	26	— 32.5 ^b	— 6.5	— 71	..	—	— 94	..	..
Indonesia	119	— 169.7	— 50.7	— 152	— 110	— 262	— 43	..	..
Malaya	13	..	— 35	..	..	— 29	..	..	..
Pakistan	..	..	..	..	..	..	+ 39	..	..
Philippines	15	+ 2.4	+ 17.4	+ 243.7 ^b	+ 198.7	— 45	+ 197.3 ^b	+ 237.5	+ 40.2
Siam	33	— 8.4 ^b	+ 24.6	— 38.2 ^b	— 27.2	— 65.4	+ 70.0 ^b	— 19.8	+ 50.2

Source: 1938 merchandise figures from League of Nations, *Network of World Trade*; unadjusted merchandise figures from table 60 above; adjusted merchandise figures for (1) Ceylon and Philippines, supplied by Governments, (2) China, supplied by the Research Department of the Central Bank of China, and (3) Siam, supplied by the Bank of Siam; data on interest, dividends and services, unless otherwise stated, supplied by Governments.

^a Figures for 1938/39.

^b Balance of trade figures adjusted to include movements of gold and silver and currencies (from Government of India, *Monthly Abstract of Statistics*, December, 1948).

^c On the basis of Government of India's estimate for the first half of 1948.

^d League of Nations estimate for 1937.

^e Representing government remittance for service of foreign debt, pensions, etc. This is the only invisible item known.

^f Balance of trade figures adjusted to include movements of gold.

^g Including movements of gold and certain government transactions not shown in customs returns.

^h Projected from January-November returns.

^a Balance of trade figures adjusted to include movements of gold and silver and corrected for under-valuation and over-valuation.

^b Balance of trade figures adjusted to include movements of gold and corrected for smuggling and under-valuation.

^c League of Nations estimate for 1936.

the Philippines economy and when, by about 1951, they disappear or considerably shrink, the Philippines also may well show a deficit on the aggregate current account.

2. While the services balances have generally tended to improve, the trade balances have turned heavily adverse. Indeed, it is the drastic turn in the trade balances which has caused the over-all balances to be so adverse.

Before the war, the normal position of the countries of the region was a deficit on non-trade account, covered by a surplus on the trade account. The deficit on non-trade account was chiefly due to the fact that the countries had absorbed a large amount of foreign capital of both rentier and entrepreneur type, for which annual payment for interest, dividends and amortization had to be made. They also depended largely on foreign countries for shipping, banking and insurance services. On the other hand, they had very little invisible exports of their own. A merchandise surplus was necessary to pay for this deficit on non-merchandise account.

China was an exception in this respect. China normally had an import surplus in spite of having absorbed a large amount of foreign capital. This was possible because of large remittances from overseas Chinese, an item of invisible export which the other countries of the region lacked. Japan also had an import surplus, which was more than offset by large earnings on shipping, banking and other services.

During the war, in countries not occupied by the Japanese, namely India and Ceylon, the trade surplus increased considerably because (a) imports were partly unobtainable and partly cut deliberately to help the war effort, and (b) exports boomed because of the almost insatiable war demand. High net export together with large Allied war expenditure within the country gave these countries large positive balances on aggregate current account and enabled them not only to repay large portions of their foreign debt but also to build up large foreign balances.

The postwar picture, it will be seen, is quite different. The deficit on non-trade account has continued but has generally tended to be smaller. This is because, although payments for certain items like shipping services have tended to increase, payments for certain other items like service of foreign capital have in general tended to fall. For example, as mentioned above, India has largely liquidated its foreign debt, while both India and Ceylon have accumulated handsome foreign balances from which some income is obtained. Moreover, regarding foreign enterprises operating in the region, their earnings have in general fallen because they have not yet been completely rehabilitated. Again, with

political independence, countries like India, Burma and Ceylon have repatriated a large part of their foreign administrative personnel and have so reduced current outpayments on that account. While for these reasons the size of the non-trade deficit has in most cases tended to fall, a striking change has taken place in the trade side of the account. As was seen in chapter XII, what used to be an export surplus has, in almost all cases, turned into a heavy import surplus. It is because of this development that the aggregate balance has become so adverse.

DOLLAR DEFICITS

Apart from these two developments, another important change has been that most countries of the region, in contrast to prewar, now have a large deficit with the United States. The balances on services account are not known, but the way in which the balances on trade account have generally turned from surpluses to deficits is shown in table 75. The services balances are also likely to be generally negative, because the United States is today the world's chief lender and ocean carrier.

TABLE 75

*Merchandise Balance of ECAFE Countries with the United States
(in million US\$)*

Country	1938	1947	1948
Burma	- 3	- 4 ^a	- 5.7 ^{b c}
Ceylon	+ 11	+ 2	+ 27 ^d
China	- 27	- 209	- 63 ^e
Hong Kong	- 1	- 37	- 59
India	+ 11	- 132	- 92 ^f
Indochina	+ 4	- 21.3	- 21.2 ^g
Indonesia	+ 20	- 87	- 32.9
Malayan Federation and Singapore.....	+ 88	+ 142	+ 125.9 ^h
Pakistan		+ 2 ⁱ	+ 1.9 ^h
Philippines	0	- 288	- 231 ^j
Siam	- 3	- 24.5 ^k	..

Source: *Foreign Commerce Weekly*, 7 February, 1949; *Supplement to Economic Survey of Indonesia 1948*, Batavia; and data supplied by Governments.

^a For year ending October, 1947.

^b For year ending October, 1948.

^c Projection from 9 months.

^d Projection from 8 months.

^e Projection from 10 months.

^f Projection from 11 months.

^g From 15 August, 1947 to 31 March, 1948.

^h From 1 April to December, 1948.

The adverse trade balance with the United States is a striking post-war phenomenon. Before the war, many countries of the region individually, and the region collectively, normally had a trade deficit with Europe and a trade surplus with the United States, the United States surplus being used to pay for the European deficit. Since the war, the region collectively and most countries individually have had a considerable trade deficit with the United States. If currencies were multilaterally convertible, the currency composition of the accounts would not matter. But the position at present is that while dollars (and other hard currencies) are convertible into sterling (and soft currencies), there is no right of unrestricted convertibility. Surpluses with other countries cannot, therefore, be used to settle any part of the United States deficit. From this point of view, the United States deficits may be said to be a better measure of the balance of payments difficulties of countries of the region than the global deficits.

A few countries, namely, Malaya, Ceylon, Pakistan and the Philippines, individually have dollar surpluses, but except in the case of Malaya and the Philippines, the amounts are small.

These deficits do not give a full idea of the region's dollar shortage because (a) dollar expenditure has been deliberately and drastically cut down in many cases, and (b) most countries have hardly any sources of dollar income other than trade, and have little or no accumulated dollar reserves.

THE POSITION OF THE REGION

What is true of individual countries is largely true of the region as a whole. However, it is difficult to measure the position of the region accurately, because, as noted earlier, although the distribution by countries of trade transactions is known, the distribution by countries of interest, dividend and service transactions is not known.

Table 76 shows the prewar and postwar positions of the countries of the region, individually and collectively, in regard to merchandise balances with countries outside the region. Assuming that the bulk of the interest, dividend and services transactions of the countries of the region are extraregional,¹ the table suggests that the region collectively had heavy over-all adverse balances in 1947 and 1948. Forming part of this over-all deficit, the region also had, as already shown in table 75, a heavy dollar deficit.

The position improved in 1948, some countries, notably China, India and Indonesia having reduced their merchandise deficits considerably.

¹ This is not so in the case of China which receives large remittances from Chinese emigrants within the region.

TABLE 76

*Merchandise Balance of ECAFE Countries with Countries
Outside the Region
(in million US\$)*

Country	1938	1947	1948
Burma	20	— 101	— 94 ^a
Ceylon	50	— 17 ^b	72 ^c
China	— 111	— 309 ^d	— 91 ^e
Hong Kong	30	— 102	— 160
India	121	— 225	— 196 ^f ^h
Indochina	21	— 76.8	— 83 ^f
Indonesia	56	— 128	— 33 ^e
Malayan Federation and Singapore....	148	160	— 23 ^g
Philippines	22	— 240	..
Siam	— 3	— 31 ^e	..
TOTAL FOR ECAFE			
REGION	354	— 1,035.8	— 608
	(10 countries)	(10 countries)	(8 countries)

Source: 1938 merchandise figures from League of Nations, *Network of World Trade*. In general, merchandise relates to general trade and also includes gold and silver.

^a Year ending October, 1948. Projection from 7 months.

^b Special trade.

^c Projection from 8 months.

^d Balance of payments data from Research Department, Central Bank of China, adjusted for wrong valuation and smuggling.

^e Projection from 9 months.

^f Projection from 10 months.

^g Projection from 11 months.

^h Sea-borne special trade only.

Nevertheless, the large over-all and dollar deficits constitute one of the most disturbing features of the current economic situation of the countries of the region.

The fact that, quantitatively, both exports and imports are still generally below the prewar level means that countries are, on the one hand, finding it difficult to restore exports and, on the other, to finance necessary imports. Current dollar earnings are also very deficient. The position would not be so serious if the countries had large foreign investments or balances on which to draw, but this is not the case except in respect of sterling balances for India, Pakistan, Ceylon, etc. So far the deficits have been financed partly by depletion of limited gold and foreign exchange reserves and partly by foreign loans and credits. But there is a limit to these methods beyond which stands the threat of external bankruptcy.

ROLE OF THE TERMS OF TRADE

The causes of the deterioration in the region's trade have been described in earlier chapters. Attention may, however, be drawn here to the part played by the terms of trade. Information is limited, but available direct and indirect evidence suggests that the terms of trade of most countries of the region have worsened, thus accentuating balance of payments difficulties.

The terms of trade of five countries for which export and import price indices are available are shown in table 77. It will be seen that in all cases, as compared with the prewar base year, the terms have distinctly, and in some cases seriously, deteriorated.

TABLE 77
Terms of Trade

	1947			1948		
	Export price index	Import price index	Terms of trade ^a	Export price index	Import price index	Terms of trade ^a
Ceylon (1934-38 = 100).....	330	488	67	344 ^b	525 ^b	63
China (1936 = 1).....	75,429 ^b	176,513 ^b	42	..	..	..
India (1938 = 100).....	285	311	91	..	..	..
Indochina (1st quarter 1939 = 100)	..	..	..	1,967 ^b	2,095 ^b	93
Indonesia (1938 = 100).....	503 ^c	712 ^c	70	490 ^d	685 ^d	71

Source: Ceylon Department of Statistics; *Economic Survey of China for 1947*, ECAFE Secretariat, and wholesale price index in Shanghai; Reserve Bank of India, *Annual Report 1947-48*; *Bulletin Economique de l'Indochine*; *Economic Review of Indonesia*, and unweighted index of important export and import prices.

^a Ratio of export/import price indices.

^b December.

^c November.

^d August.

^e Second quarter.

The position of other countries cannot be definitely stated. The terms of trade of a particular country depend on the type of goods it exports and imports. The main exports from the countries of the region are primary products, the prices of which in world markets have changed in widely varying degrees. In some cases, such as copra, raw cotton and jute, prices have gone up very high, while in others, like tea, rubber and sugar, price increases have been relatively small. Among 46 primary

products which figure in international trade, the rise in price between 1938 and 1947 has been greatest for copra and least for rubber. The position of the more important products of the region is shown in table 78.

TABLE 78

*Price Ratios of Selected Primary Products in Selected Markets, 1947
(1938 = 100)**

	Price ratio		Price ratio
Copra	515	Raw Silk	260
Cotton	382	Hides and Skins	234
Manila Hemp	372	Tea	196
Jute	367	Sugar	180
Wheat	339	Rubber	142
Rice	318		

* The import/export price ratios being calculated on a 1938 base probably underestimate the deterioration of the terms of trade and the changed constitution of the imports of the countries concerned.

It is clear that countries which export large quantities of high-priced products like copra, jute and cotton have fared better in regard to their terms of trade than countries which export products like rubber, silk and tea.

While on the export side the countries of the region are largely similar, in that they all specialize in the export of certain primary products, on the import side this is not so. Whereas they all import capital goods and substantial quantities of finished manufactures, some are also considerable importers of primary products, particularly food grains. As was seen in chapter XII, this dependence on food imports has greatly increased since the war. On the whole, available evidence suggests that the prices of capital goods and finished manufactures have risen rather less in the world market than the prices of primary products. While this factor may have made for some slight improvement in the terms of trade of countries of the region, its effect has been more than offset by high food prices in the case of countries which have to import large quantities of food. This would explain the current unfavourable terms of trade of countries like India and Ceylon which are large food importers. In fact, in both these countries, high expenditure on food imports has been a major cause of their postwar adverse balances. In Ceylon, for instance, where food constitutes over half the total imports, the food import price index (1934-1938 = 100) was as high as 860 in the second quarter of 1948. In the cases of Burma and Siam, on the other hand, although

statistics are not available, the fact that they are large exporters of food probably means that their terms of trade have deteriorated only slightly, if at all.

THE CAPITAL ACCOUNT

Some information on capital items is given in the country notes which follow this section. In general, however, the information is very limited, and known capital movements do not fully explain how the deficits on current account have been financed. Broadly speaking, deficits have been financed by (1) drawings on gold and foreign exchange reserves and (2) new foreign borrowing and grants. India and Ceylon, for example, have reduced much of their sterling balances accumulated during the war. India's sterling balances dwindled from £1,260 million at the end of 1945 to £775 million at the end of 1948, and Ceylon's sterling balances from £70 million at the end of 1945 to £38 million at the end of 1947. The Federal Reserve Board's statistics show that China's net short term dollar assets, including official and private funds, decreased from \$581 million at the end of 1945 to \$189 million at the end of 1947, and \$167 million at the end of November 1948.¹ In the first six months of 1948, China's official gold and foreign exchange holdings declined by about one half.

The extent to which foreign loans and grants have flowed into the region since the war is indicated in table 79. This table covers only grants and credits by governments and international agencies. Grants and credits on private account are excluded. The period covered is approximately 1 July, 1945 to 1 November, 1948.

TABLE 79
Postwar International Grants and Credits
(in million US\$)

Recipient country	Total	International agencies	U.S. government	Other governments
Burma	127	—	5	122
China	1,959	527	1,372	60
India	67	52	15	—
Indonesia	143	—	104	39
Pakistan	10	—	10	—
Philippines	280	10	270	—
Siam	25	—	10	15
TOTAL.....	2,611	589	1,786	236

Source: United Nations, *Major Economic Changes in 1948*, 1949.

¹ *Federal Reserve Bulletin*, February, 1949.

COUNTRY NOTES

Ceylon: Estimates of Ceylon's balances of payments on current account for 1947 and 1948 are shown in table 80.

TABLE 80

Ceylon's Balances of Payments
(in million rupees)

	1947		1948	
	Credit	Debit	Credit	Debit
Merchandise (including gold and silver)	889	952	985 ^a	892 ^b
Interest and Dividend..	24	115	31	80
Other Services	53	75	82 ^c	103
TOTAL	966	1,142	1,098	1,075
Balance	-176		24	

Source: 1947 estimate from *Economic Survey of Ceylon*, ECAFE Secretariat; 1948 estimate supplied by the Ceylon Department of Statistics.

^a Includes 45 million as correction for under-valuation.

^b Reduced by 32 million as correction for over-valuation.

^c Includes 53 million as military expenditure by the United Kingdom.

Information on capital movements is incomplete. In 1947 there was a decline in foreign balances (sterling and rupee balances combined) of Rs.413 million. It is apparently out of this that the deficit on current account was financed. The known increase in investment abroad in 1948 was Rs.35 million. The surplus on current account would seem to have covered part of this investment.

Before the war Ceylon normally had a surplus on merchandise account which approximately offset a deficit on non-merchandise account. During the war there was a very large surplus both on merchandise and non-merchandise account, thanks to the great demand for Ceylon's exports and the large Allied military expenditure in the country. This made possible the accumulation of considerable sterling balances in England and rupee balances in India. These favourable factors, however, quickly disappeared after the war, and the over-all balance of payments, after showing a much reduced surplus in 1946, turned heavily unfavourable in 1947. The surplus in 1948 indicates a remarkably quick recovery. The recovery seems, however, to be due more to a drastic tightening of import and exchange control, which came into effect on 1 June, 1948, than to any basic economic improvement.

The 1947 deficit was financed by drawing on accumulated sterling balances. Ceylon has no dollar deficit, being, on the contrary, a small net earner of dollars, thanks mainly to the export of rubber to the United

States. However, its dollar earnings go into the Sterling Area Dollar Pool, and it has voluntarily undertaken to keep its dollar requirements at the lowest possible level. On 1 June, 1948, exchange control was tightened and extended also to the Sterling Area. Exporters are now required to surrender all their foreign exchange earnings to the Exchange Control. Import licences are regulated according to the hardness of the currency concerned. Only approved capital remittances are allowed.

China: Although no estimate of China's balance of payments is available for 1948, several estimates are available for 1947. Of these, the estimate obtained from the Research Department of the Central Bank of China is given in table 81 as one of the most authoritative. The items have been regrouped in accordance with the standardized form suggested by the League of Nations Sub-Committee on Balance of Payments. Unilateral transfers of goods and services (as distinguished from transfers of money) such as under UNRRA, Lend-Lease, etc. have been excluded from the account, but are shown separately.

Table 81 reveals that, including unilateral financial transfers in the current account, China had a deficit of US\$189.67 million on current account and that the deficit was met largely by depletion of government foreign exchange reserves. The capital account, however, showed a surplus of only US\$138.34 million, the difference of US\$51.33 million being unaccounted for. The credit figure of US\$90 million for remittances (which compares with US\$131.9 million in 1937) is probably somewhat exaggerated. The recorded amount, that is to say, the amount collected by the Central Bank of China and its agencies, was only US\$18 million.

Large unilateral receipts in kind have been a feature of China's postwar international account. But for these gifts, the deficit on current account would almost certainly have been greater.

Full information on the currency composition of the balance is not available. But on purely merchandise account (unadjusted for wrong valuation and smuggling) table 75 shows very heavy deficits with the United States in 1947 and 1948; there was also a large deficit in 1946.¹

Details of the balance of payments position in 1948 are not yet available. Probably the over-all deficit was less. The merchandise deficit, as projected from 11 months' trade, was appreciably less than in 1947. The trade deficit with the United States also appeared to be less.

India: Before the war, India normally had a surplus on trade account which covered its deficit on interest, dividend and services account. During the war it became a large net seller of both goods and

¹ US\$392.1 million. *Foreign Commerce Weekly*, 2 October, 1948.

TABLE 81

China's Balance of Payments 1947
(In million US\$)

	<i>Credit</i>	<i>Debit</i>
A. Current Business Transactions		
I. Goods		
Exports (f.o.b.) and imports (c.i.f.) ..	230.53	440.61
Adjustment for smuggling and under-valuation	57.63	110.15
Non-monetary gold	5.21	
	288.16	555.97
II. Yield of investments		36.04
III. Services		
Expenditure of students and tourists, film royalties, salaries of foreign staff, etc.	40.00	31.82
Expenditure of United States forces in China	30.00	
Diplomatic service	22.00	26.00
	380.16	649.83
B. Unilateral Financial Transfers		
Personal and institutional remittances.....	90.00	10.00
	90.00	10.00
C. Capital and Gold		
Amount of foreign loans drawn upon.....	49.49	
Sale of securities by Chinese Government in United States	3.00	
Flight of capital from China.....		50.00
Net official sale of foreign exchange.....	135.85	
	188.34	50.00
TOTAL FOR ALL GROUPS.....	658.50	709.83
Errors and omissions	51.33	

Unilateral Transfers of Goods and Services
(Not included in the above table)

	<i>Received from foreign countries</i>	<i>Delivered to foreign countries</i>
UNRRA	278.70	—
Post-UNRRA	5.00	—
Surplus property	39.55	—
Lend-Lease	10.32	—
	333.57	—

Source: Research Department, Central Bank of China. Conversions made at official rate up to August, later at open market rates.

services, which made possible the repayment of practically the whole of its sterling debt, the accumulation of considerable sterling balances and the purchase of large blocks of British investments in the country. During this period there were also substantial positive balances with the United States. From 1947 onward, however, the tide turned, and there have been heavy adverse balances, global as well as with the United States. Detailed estimates are not available. Totals for the fiscal years (April-March) 1938/39 to 1946/47, however, are shown in table 82.

TABLE 82

*India's Balance of Payments on Current Account
1938/39 to 1946/47
(In million rupees)*

	Total	United States
1938/39	— 254	..
1939/40 .....	..	..
1940/41	860	— 1,440
1941/42	2,259	147
1942/43	3,543	151
1943/44	4,540	424
1944/45	5,736	340
1945/46	4,069	365
1946/47	— 1,250	— 150

Source: Government of India.

After March 1947 the position seems to have improved appreciably although it still remained serious. In the last six months of 1947 there was an over-all deficit of Rs.330 million.

Table 83 on page 268 shows the estimated balance of payments for the first half of 1948.

It will be seen that while the over-all deficit was Rs.520 million, the deficit with the Western Hemisphere was Rs.270 million. The position does not seem to have improved in the second half of 1948. Food imports, which had been the largest single consumer of foreign exchange, remained high. The dollar portion of the deficit also remained high because much of the food had to be imported from dollar sources. During the six months, April to September, 1948, the deficit with hard-currency countries was US\$45 million, of which US\$35 million was for food. During the next three months, it was expected to be another US\$48 million, of which US\$40 million was for food.¹

¹ Budget Speech of the Finance Minister, 1 March, 1949.

TABLE 83

*India's Balance of Payments on Current Account for
the First Half of 1948*
(In million rupees)

	<i>Western Hemisphere</i>	<i>Other</i>	<i>Total</i>
Receipts			
Exports	490	1,310	1,800
Others	70	210	280
	<hr/>	<hr/>	<hr/>
TOTAL	560	1,520	2,080
Payments			
Commercial Imports	430	880	1,310
Government Imports			
Food	210	400	610
Non-Food	110	140	250
Other Payments			
Government	10	100	110
Others	70	250	320
	<hr/>	<hr/>	<hr/>
TOTAL	830	1,770	2,600
Deficit	270	250	520

Source: Government of India.

Information on capital movements is limited, but until recently the deficits seem to have been mainly financed by the liquidation of sterling balances. The balances reached their peak of Rs.17,330 million at the end of 1945/46. During 1946/47 they fell by Rs.1,210 million and during 1947/48 by Rs.670 million. In the first ten months of 1948/49, from April, 1948 to January, 1949, there was a heavy drop of Rs.5,560 million, but much of it represented (a) purchase of sterling annuities to liquidate annual payments of sterling pensions, i.e., amortization of sterling debt, and (b) the transfer to Pakistan of its share of the balances. Only a part of it was for financing the balance of payments deficit on current account.¹

Because of the fact that, under the Sterling Balances Agreement, the dollar convertibility of the sterling reserve is strictly limited, the dollar portion of the deficit has had to be financed in part by the purchase of dollars from the International Monetary Fund. During the financial year 1948/49, US\$92 million was obtained from the Fund for this purpose. India's main problem is the deficit with hard-currency countries. India

¹ *Ibid.*

has no dollar reserves, and its gold reserves are also relatively small.¹ Nor can the sterling balances be freely used for settling dollar obligations. The scale of dollar convertibility of sterling under the Sterling Balances Agreement is much less than the scale of dollar deficits which India is now experiencing. Measures taken to deal with this problem were described in chapter XII.

Indonesia: An estimate in broad terms of Indonesia's balance for 1947 is given in table 84.

TABLE 84
Indonesia's Balance of Payments for 1947
(In million guilders)

	<i>Credit</i>		<i>Debit</i>
Exports	338	Imports	754
Services	138	Services	387
Investments	16	Interest and amortization....	48
Credits	342	Other entries	72
Drain of capital	427		
TOTAL.....	1,261	TOTAL.....	1,261

Source: Statement supplied by the Government for the Survey.

Assuming that no amortization payments are in fact included in the entry "Interest and Amortization", and that "Other Entries" represent capital movements, total receipts and payments on current account come to be 482 and 1,189 million guilders respectively. This means a deficit of 707 million guilders. In 1946, according to an estimate published in January, 1949, Indonesia had a deficit of 297 million guilders in merchandise, 112 million in services and 50 million in investment yield, making an over-all total of 459 million guilders.² The deficits were covered by large imports of capital on private and official account. The figures given for the two years are: on private account, 59 million guilders in 1946; on official account, 449 million guilders in 1946 and 508 million guilders in 1947. There was an export of monetary gold of 59 million guilders in 1947.

No balance of payments estimate for 1948 is available, but the balance on merchandise account indicates a striking recovery. Exports

¹ The Reserve Bank's gold holding remained unchanged at Rs.274 million from the time of the inception of the Bank in 1934 to the time of partition. After partition, it was Rs.264 million. In December 1948, it was Rs.256 million. There has been a further fall since then.

² An estimate given in the *Economic Review of Indonesia*, June, 1948, however, gives for the same year a deficit of 415 million guilders on merchandise and 270 million guilders on services, making a total of 685 million guilders.

TABLE 85

Philippine Balance of Payments for 1947 and 1948
(In million pesos)

	1947		1948	
	Credit	Debit	Credit	Debit
A. Current Business Transaction				
I. Goods	531.0	1,022.7	645.0	1,054.0
Gold	4.5		14.5	
II. Yield of investments	22.4	25.5	6.5	5.0*
III. Services:				
United States Army and Navy expenditures	483.5		623.0	
Pensions to war veterans, etc...	52.0			
Freight, insurance, tourist and diplomatic expenditure, etc.	45.9	151.0	33.5	148.0
B. Unilateral Financial Transfers				
Remittances of emigrants and immigrants	30.0	100.0	30.0	65.0
Other United States Government expenditure	40.1			
TOTAL A and B.....	1,209.4	1,299.2	1,352.5	1,272.0
C. Capital and Gold				
Loans, refunds and transfers under Surplus Property Agreement	212.7		18.0	
Contribution to Fund and Bank, amortization of capital and other payments		56.0		21.0
TOTAL ALL GROUPS	1,422.1	1,355.2	1,370.5	1,293.0
Unaccounted		66.9		77.5

Note. There was a receipt of UNRRA supplies of the value of 3 million pesos in 1947.

Source: Philippine Government Department of Commerce.

* Government.

were 1,043.6 million guilders and imports 1,039 million guilders, leaving an export surplus of 4.6 million guilders. The deficit on the invisible items apparently remained large, because according to one estimate,¹ an over-all deficit of 417.6 million guilders (US\$157 million) was expected for the year. The deficit was to be partly met by a capital transfer of US\$84 million from the ECA allocation to the Netherlands.

Dollar deficit has been a major part of the over-all deficit. In 1947 the merchandise deficit with the United States was 230.7 million guilders

¹ *Records and Statistics*, 6 November, 1948.

and in 1948, 87.6 million guilders. Before the war, Indonesia normally had a substantial export surplus with the United States.

The Philippines: Estimated Philippine balances of payments for 1947 and 1948 are given in table 85. The data supplied by the Philippine Government have been regrouped according to the standard form suggested by the League of Nations Balance of Payments Sub-Committee.

It will be seen that United States Government expenditure has been the main balancing factor in the Philippine balance of payments, alone making possible the heavy deficit on merchandise account. The position was more or less the same in 1945 and 1946. During these two years the Philippines received, in property transfers and cash payments, aid amounting to US\$500 million from the United States Government. So long as this large source of dollar income remains, the Philippines is not likely to have any balance of payments difficulty or dollar problem. However, according to projections made by the Joint Philippine-American Finance Corporation, income from this source will largely dry up by 1951. The pattern of the Philippine balance of payments is almost sure to change thereafter, as it will be extremely difficult, if not impossible, to maintain imports at the present high level. The Philippines has substantial dollar reserves, which, with the establishment of the Central Bank and the modification of the 100 per cent reserve system of the currency, may be freely drawn on, but it is doubtless judged desirable to conserve an adequate part of them for obtaining development goods as and when they become available, rather than spend them immediately on consumption goods. At the end of 1948, therefore, after years of free trade unhampered by licences and exchange controls, the Philippines adopted an import control law restricting importation of relatively non-essential goods. The two main objects of the control scheme are to conserve foreign exchange for more essential imports and to give necessary protection to home industries.

The normal prewar pattern of the Philippine balance of payments was a deficit on invisible items, which was more than offset by a surplus on merchandise, leaving an over-all favourable balance. This favourable balance went largely to increase the dollar reserves of the Philippine Government, although a small part of it also went to increase the foreign investments of Philippine residents. (The year 1938, for which figures were given in table 74, was rather exceptional in this respect, since it showed a small surplus in invisible as well as visible items.) The postwar pattern of the balance is just the reverse, a heavy merchandise deficit offset by a surplus on invisible items.

Siam: Before the war, Siam was normally a large net exporter of merchandise to the United States and to the rest of the world. The export

surplus, usually amounting to about 50 per cent of the value of total imports, covered a deficit in invisible items caused mainly by remittances of Chinese and other immigrants to their relations abroad. The war altered this pattern. In 1946 and 1947 the balance of trade and the balance of payments were both unfavourable. The 1948 estimate suggests that the old pattern is now returning, although perhaps the size of the merchandise surplus and the size of the services deficit will both be smaller.

Siam's balance of payments on current account in 1947 and 1948, as estimated by the Bank of Siam, is shown in table 86.

TABLE 86

Siam's Balance of Payments for 1947 and 1948
(In million baht)

	1947		1948	
	Credit	Debit	Credit	Debit
Merchandise	1,045.6	1,132.2	2,409.6	1,709.1
Services	0.6	67.5	5.8	107.2
Remittances	2.8	208.8	3.9	100.6
Gold	—	295.2	—	0.1
TOTAL	1,049.0	1,703.7	2,419.3	1,917.0
Balance	—	—654.7	—	502.3

Source: Bank of Siam Reports 1947 and 1948.

It should be pointed out that these estimates are incomplete in many ways. Services and Remittances include only receipts and payments by Government on such items as interest on foreign balances, service of foreign loans, remittances for diplomatic service, pensions, scholarships, etc. The only private remittances included are some payments for students' expenses abroad for which preferential exchange rates are sought from the Bank of Siam and which are consequently known to it. The great bulk of receipts and payments on private account, embracing interest and dividends on investments, expenditure of tourists, remittances by emigrants and immigrants, expenditure of foreign diplomatic establishments in the country, in short, most of the invisible items, are excluded. Some of these items, particularly outward remittances by Chinese immigrants, are normally quite substantial in amount. The estimates also do not include any correction of merchandise figures for smuggling and wrong valuation. In 1948, if full account were taken of all invisible outpayments, the surplus would probably shrink considerably, if not disappear.

Gold has been included in the account because gold movements were mainly of a merchandise character. It should also be explained that import and export figures given in the account would not agree exactly with figures given by the Customs because (a) certain imports on government account, such as purchase of warships, are excluded from the Customs returns and (b) the Bank of Siam's figures relate to the year's actual receipts and payments while the Customs figures relate to the value of imports and exports whether payment is made during the year or not.

The currency distribution of the balances is not known. On purely trade account, however, as will be seen from table 75, Siam had a negative balance with the United States in 1947.

Information on capital movements is limited. The deficits in 1946 and 1947 seem to have been covered partly by a depletion of foreign reserves and partly by foreign loans. Since the end of the war, Siam has received a total of US\$25 million in foreign loans, of which US\$10 million has been from the United States. The balance was a rupee loan by India, which has already been repaid.

SUMMARY

The postwar balances of payments on current account of countries of the region show three important changes as compared with prewar: (1) nearly all countries have developed heavy over-all deficits; (2) as between the merchandise and the services sections of the balance, while the services balance has generally tended to become less adverse, the merchandise balance has changed from being substantially favourable to substantially unfavourable; (3) most of the countries have developed large dollar deficits.

Not only individually, but also collectively, the countries of the region have developed a serious over-all deficit, of which a heavy dollar deficit forms a part.

The over-all and dollar deficits constitute one of the most disturbing features of the current economic situation of the region. So far, they have been financed partly by a liquidation of gold and foreign exchange holdings and partly by loans and grants obtained chiefly on government account. But there is a limit to these methods.

The chief causes of these changes in the pattern of the balance of payments are: (1) a fall in export capacity due to slow recovery of production after the war, and (2) a rise in import needs due to continuing world food shortages, release of pent-up demand, and implementation of rehabilitation and development programmes. In food deficit countries like India and Ceylon, expenditure on food imports has constituted the largest single drain on foreign exchange. In addition, in certain countries

a significant role seems to have been played by a deterioration in the terms of trade. Evidence, however, is not conclusive as to whether or not the region's terms of trade with the outside world have deteriorated.

The position in 1948 was distinctly better than in 1947, although it still remained serious. India, China and Indonesia considerably reduced their over-all deficits. Ceylon moved from a large deficit to a small surplus. On known figures, Siam's balance turned from unfavourable to favourable. In assessing this improvement in 1948, it should be borne in mind that it is partly the result of a tightening of trade and exchange controls and not merely of a general improvement in economic conditions.

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